FINANCIAL TIMES

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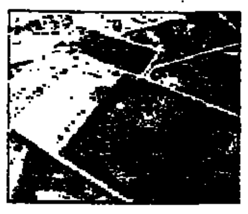

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WORLD NEWS

Nato on heightened alert as tensions grow over Kosovo

Western governments yesterday ordered Nato warships closer to Yugoslavia and told William Walker, US head of the international Kosovo monitoring mission, to ignore Belgrade's expulsion order. The alliance was told to be ready to carry out air strikes at 48 hours' notice. **Page 12**

Lafontaine unveils 'budget for jobs'
German finance minister Oskar Lafontaine unveiled a 1999 federal budget "for new jobs and financial stability". He signalled he would continue the previous government's privatisation programme. **Europe, Page 3**

Keen contest to head WTO
The race to head the World Trade Organisation gained pace with a new set of rankings of the four candidates and indications that Washington may back Mike Moore, former New Zealand premier. **Trade, Page 6**

Anglo-German talks on N-fuel
Britain and Germany will set up a working party to discuss ways of returning spent nuclear fuel to Germany if it goes ahead with plans to end nuclear processing contracts. **Europe, Page 2; Editorial comment, Page 11**

UK party leader to stand down
Paddy Ashdown, leader of Britain's minority Liberal Democrats, is to quit as party head after European elections in June and step down as a legislator after the next general election. **Britain, Page 8**

Irish PM warns of problems
Irish prime minister Bertie Ahern warned that "all hell would break loose" if the pro-British Ulster Unionists tried to form a Northern Ireland government without Sinn Féin, political wing of the IRA. **Britain, Page 8**

Hussein still pondering succession
King Hussein of Jordan fuelled speculation about the succession, saying he had "thoughts and ideas" about replacing Crown Prince Hassan as his heir. **International, Page 3**

Russia silent on Ocalan
Russia's foreign ministry refused to comment on reports that Kurdish rebel leader Abdullah Ocalan is in hiding in the country. In an interview he gave while in Italy, Ocalan said he would seek political asylum in Russia.

Hong Kong government blocks bills
Hong Kong's government used provisions in the Basic Law mini-constitution to block two private members' bills. The move marks a further erosion of the legislature's powers. **Asia, Page 6**

Four held over anti-US bomb plot
Indian police arrested four people for an alleged bombing plot against US diplomatic missions. Six others being hunted are believed to be associated with wealthy Saudi dissident Osama Bin Laden, the target of US attacks on Islamic militant camps in Afghanistan last year.

Miners halt march on Bucharest
Striking Romanian coalminers halted their march towards Bucharest after prime minister Radu Vasile offered to meet their leaders. **Europe, Page 3**

BUSINESS NEWS

GM turns in record fourth quarter profits and boosts reserves

General Motors, US vehicle builder, reported record fourth quarter profits of $1.8bn. The group also said its cash resources, run down during last summer's strikes, had been rebuilt to more than $13bn. **Companies and markets, Page 13; Japanese carmakers report fall, Page 6**

DaimlerChrysler is to take full control of locomotives and railway carriages maker Adtranz by paying $472m to buy out its joint venture partner, Swiss-Swedish engineering group ABB. **Companies and markets, Page 13**

Volkswagen, German carmaker, is to expand its production capacity in Bratislava, the Slovak capital, with an investment of around DM450m (€230m, $267m). **International companies, Page 17**

Lycos is seeking a strategic investor willing to take a stake of up to 20 per cent, a senior executive of the US internet search engine company said. **Companies and markets, Page 13**

General Electric is on track to become the first US company to earn $10bn in annual after-tax profits unless Exxon, through the purchase of Mobil, gets there first. **US companies, Page 16**

Telia, Swedish state-run telephone company, plans to merge with Norwegian rival Telenor to form one of Europe's largest telecommunication groups. **European companies, Page 15**

Voest-Alpine Technologie, Austrian engineering group, is in talks with Kvaerner about the acquisition of the Anglo-Norwegian group's metals division. **European companies, Page 15**

Baan shares fell 8 per cent after the ailing Dutch business software group said it expected a fourth-quarter loss of $250m. **European companies, Page 15**

Sanwa Bank and Toyo Trust, two of Japan's largest banks, plan to combine part of their asset-management and banking businesses. **Asia-Pacific companies, Page 14**

Acer Semiconductor Manufacturing, a unit of Taiwanese computer group Acer, said it expected to end a string of losses with a profit of T$1bn (US$31m) this year. Analysts said the forecast could prove optimistic. **Asia-Pacific companies, Page 14**

Check Point Software Technologies, Israeli manufacturer of network security software, said net income soared 77 per cent during 1998 to $69.8m. **International companies, Page 17**

Daiei founder Isao Nakauchi announced his resignation as president after 40 years at the helm of Japan's largest supermarket operator. **Asia-Pacific companies, Page 14**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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FED CHAIRMAN WARNS AGAINST POLITICAL INTERFERENCE AND PROSPECT OF SLOWDOWN IN MARKET

Greenspan attacks Clinton's plan to invest welfare funds

Alan Greenspan yesterday: fears government-directed investment in equities would reduce productivity growth and hurt living standards AP

By Stephen Fidler and Deborah McGregor in Washington

Alan Greenspan, chairman of the US Federal Reserve, yesterday attacked President Bill Clinton's plans to invest Social Security funds in the stock market, saying he feared investments would fall victim to political manipulation.

Speaking to the Ways and Means Committee of the House of Representatives, Mr Greenspan said he feared government directed investment in equities would lower the efficiency of capital allocation in the US, reduce productivity growth and hurt living standards.

Mr Greenspan also sounded a warning note about the stock market. The high level of US share prices "would appear to envision substantially greater growth of profits than has been experienced of late".

He also warned that the US economy's combination of low inflation and high growth could not continue indefinitely. A small slowdown might be required to sustain the expansion, he said.

In his State of the Union address on Tuesday night, Mr Clinton proposed setting aside $2,800bn of the projected federal surplus over the next 15 years to restore the Social Security retirement programme.

About $700bn would be invested in the stock market in the hopes of getting a higher return. At present, Social Security reserves are required by law to be invested in Treasury securities, a safe but traditionally low-yield investment.

Mr Clinton wants to establish an independent board that would select stocks.

He suggested the board's options would be limited to fairly neutral investments, such as stock index funds.

He also said the board would operate free of political pressures, but Mr Greenspan made it clear he did not believe this was realistic. "I do not believe that it is politically feasible to insulate such huge funds from government direction," he said. "I am fearful that we would use those assets in a way that would create a lower rate of return for Social Security recipients."

Mr Greenspan cited studies showing that returns on state and local pension funds have been usually 2-3 percentage points lower on average than comparable private pension funds.

Other studies suggested that the greater the proportion of political appointees who are trustees of a fund, the lower the rate of return.

Mr Greenspan has criticised proposals that Social Security funds be invested by government in the stock market before, notably in July in testimony before the Senate Banking Committee.

Mr Greenspan's intervention yesterday is likely to deflate a White House plan that many believe will encounter political opposition in any case.

Congressional Republicans do not support investing Social Security funds in the stock market. While acknowledging the programme is in financial straits, they favour encouraging Americans to open private investment accounts to manage on their own.

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GERMAN CHANCELLOR INVITES SUPPORT FROM OTHER MEMBERS OF G7 AS HE SIGNALS CHANGE IN POLICY

Schröder plans more debt aid for poor nations

By Ralph Atkins in Bonn

Gerhard Schröder, the German chancellor, has signalled a significant change in his country's policy towards developing countries with an international initiative to speed up and extend debt relief for the poorest nations.

Writing in today's Financial Times, Mr Schröder invites support from other members of the Group of Seven leading industrialised nations at their summit in Cologne in June.

The aim of the "Cologne debt initiative", he writes, is "to enable as many countries as possible to make the necessary adjustments and receive debt relief quickly and comprehensively".

Aid agencies are likely to welcome Mr Schröder's proposals, which fulfil a commitment made in the programme of his Social Democratic-led government.

They regarded the previous German government, headed by Helmut Kohl, as one of the main obstacles to progress on debt relief.

In the past few years, efforts to accelerate debt relief have been stepped up under the Heavily Indebted Poor Countries (HIPC) initiative, supported by the World Bank and International Monetary Fund.

However, HIPC has not assuaged widespread concerns that too few debts are being forgiven and that progress is too slow.

Mr Schröder proposes that the existing framework for deciding the extent of debt relief should be used to the full.

"For some countries with particularly difficult problems, however, this might not be enough. In exceptional cases, therefore, the Paris Club should consider total cancellation of commercial credits and loans." The German initiative would be in line with aid agencies' proposals that the countries to benefit from debt relief should channel the funds released by such initiatives into projects combating poverty. Mr Schröder says the initiative should be flanked by a "comprehensive conflict-prevention strategy" for the world's poorest regions. This would also be discussed at the G7 summit.

Heidemarie Wieczorek-Zeul, German development aid minister, is pushing for a three-year period in which benefiting countries have to fulfil prescribed conditions, rather than the normal six years.

The chancellor does not mention specifically the possibility of Germany authorising the sale of gold by the IMF, widely seen as an important way to fund debt relief.

But he does say Germany would "make available funds" for the IMF's enhanced structural adjustment programme, through which the fund helps its poorest members on concessionary terms.

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Coca-Cola to launch a range of clothing

By John Willman in London

Coca-Cola, the world's biggest soft drinks company, is to launch a range of fashion and sports clothing in the first significant extension of the Coke brand.

The Atlanta-based company, which has almost half the global soft drinks market, is signing up partners and franchisees worldwide to manufacture and market the Coca-Cola Wear label. The UK will be the first European market for the new line, which will also be rolled out in the US and other important Coke markets worldwide.

The range, which will include jeans, sports clothing and other casual items, will be sold through concessions in department stores and fashion outlets. There are expected to be variations in the clothes according to national tastes.

"The range will be designed to connect back with the brand," the company said yesterday. "The clothes will reflect Coca-Cola's values of authenticity, genuineness and part of people's lives – they will be the kind of thing you'd wear when enjoying our drinks."

Coke already licenses the use of its logo, can design and other symbols for more than 10,000 products, including clothing, in 40 countries. It has four dedicated shops for such merchandise, in New York, Las Vegas and two in Atlanta.

The Wear range will include some products giving prominence to the logo, but it will also include "low branded" articles of clothing which it hopes consumers will buy because they associate the name on the label with the company's values.

This will be the first time the company has used its brand name to give credibility to products which are not primarily designed to display its logo.

Brand extension is common in some sectors such as films, with companies like Walt Disney and Universal opening shops and theme parks. Philip Morris has extended its Marlboro cigarette brand to a range of clothing, while Caterpillar, the earth-moving equipment manufacturer, licenses a range of fashion goods.

In the UK, Richard Branson's Virgin Group has applied the Virgin brand, best known for its music recording business and airline, to a wide variety of products including a cola, clothing, and a train operating company.

Coca-Cola recently reported the first fall in global sales in recent memory due to the economic upheavals in Asia, Russia and Latin America.

WORLD MARKETS

STOCK MARKET INDICES			**GOLD**		
New York: lunchtime			New York: Comex		
Dow Jones Ind Av	9,438.38	(+83.16)	(Feb)	$287.5	(286.8)
NASDAQ Composite	2,462.18	(+54.02)	London:	$285.85	(285.95)
Europe and Far East					
CAC40	4,190.01	(+74.02)	**DOLLAR**		
DAX	5,143.06	(+69.91)	New York: lunchtime		
FTSE 100	6,105.8	(+78.0)	£	1.6455	
FTSE Eurotop 300	1,229.82	(+16.37)	€	0.86355	
Nikkei	14,028.05	(+257.61)	SFr	1.3897	
US LUNCHTIME RATES			Y	113.495	
Federal Funds	4.625%		London:		
3-mth Treas Bills: Yld	4.40%		£	1.6474	(1.6586)
Long Bond	100⅜		€	0.8643	(0.8618)
Yield	5.20%		SFr	1.3891	(1.3754)
OTHER RATES			Y	113.505	(113.890)
UK: 3-mo Interbank	6⅛%	(6⅛%)	Tokyo close		Y 113.50
UK: 10 yr Gilt	137.35	(137.01)	**EURO (London)**		
BBA Euribor	3⅛	(3⅛)	$	1.1571	(1.1607)
Germany: 10 yr Bund	108.19	(108.41)	£	0.7024	(0.6999)
Japan: 10 yr JGB	100.193	(99.623)	Y	131.331	(131.864)
NORTH SEA OIL (Argus)			SFr	1.6061	(1.5864)
Brent Dated	$10.845	(11.23)			

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3900 (€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.65	South Africa	R15
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325 (€1.95)
Finland	Fmk13.00 (€2.19)	Lebanon	L$3,500	Sweden	SKr20.00
France	FFr14.00 (€2.13)	Luxembourg	LFr90 (€2.23)	Switzerland	SFr3.50
Gibraltar	£0.75	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80 (€2.18)	Tunisia	Din2.000
Hungary	Ft360	Norway	NKr19.00	UAE	Dh13.00

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NUCLEAR PROCESSING BRITAIN SAYS £1.2BN CONTRACTS ARE BINDING WHILE BONN CONSIDERS AN 'ACT OF GOD' DEFENCE

UK, Germany fail to close fuels gap

By Andrew Taylor in London and Frederick Stüdemann in Bonn

Britain and Germany are to establish a working party to discuss ways of returning spent nuclear fuel to Germany if it proceeds with plans to end nuclear processing contracts with British and French companies.

A meeting between Stephen Byers the British trade and industry secretary and Jürgen Trittin, German environment minister did little, however, to narrow the gap between the two sides.

Mr Byers told Mr Trittin Germany's £1.2bn ($2bn) reprocessing contracts with British Nuclear Fuels (BNFL) were legally binding. BNFL has said it would take German authorities to court to seek financial compensation for the loss of work.

Mr Byers said after the meeting in London: "It would be wrong for the company to suffer financially from a change in German policy." He insisted contractual obligations "would be determined under English law". British experts say it could cost German authorities about £500m to pay off BNFL and cover the cost of repatriating untreated nuclear fuel from its Sellafield plant in Cumbria.

Mr Byers said: "I made it clear [to Mr Trittin] that if the 650 tonnes of German spent fuel in store at Sellafield were not to be reprocessed then it would have to be returned to Germany." He said Mr Trittin had agreed to a joint working party to work out practical details of returning the fuel "should this prove necessary".

Germany is thought to owe about £300m under contract terms that require BNFL to be paid whether or not fuel is reprocessed. Germany would also have to meet the cost, put at several hundred million pounds, of treating fuel to allow it to be transported, shipping it to Germany or some other country and then paying for long term storage.

Cogema of France, which has similarly large German nuclear reprocessing contracts, also intends to press for compensation if the terms are not honoured.

The contracts have their origins in the 1970s when in the wake of the oil-crisis Bonn made recycling central to its energy policy. Nuclear operators were obliged to reprocess spent fuel rods but had to go abroad after plans to build a domestic reprocessing facility were abandoned in the late 1980s.

The total value of German contracts with Cogema is some DM9bn (€4.6bn - $5.4bn). The total value of the BNFL business is DM3.9bn.

The German nuclear industry claims that penalties for breach of contract could cost DM5bn to DM7bn, which it would pass on to the government. Government officials put the figure lower at around DM1.2bn while arguing that reprocessing can be stopped without any compensation payments at all. Bonn argues its policy is equivalent to an "act of God" and would thus satisfy the terms of contractual clauses allowing for early cancellation.

But there has also been a perceptible shift in the German government's position away from dwelling on the legal aspects and towards reaching political agreement with France and Britain.

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Despite their smiles Jürgen Trittin, German environment minister, (right) and Stephen Byers, UK trade and industry secretary, made little progress during talks in London yesterday AP

Angry unions give French Greens a pelting

By Robert Graham in Paris

It was like a red rag to a bull.

In the wake of the German government's Green-inspired decision to phase out nuclear energy, the French Greens chose to send a delegation to visit the country's leading nuclear fuel reprocessing plant near Cherbourg. Not only was the La Hague plant the French facility most affected by the German decision, but the delegation was led by Daniel Cohen-Bendit, the Franco-German 1968 student rebel turned leading Green candidate for the June European parliamentary elections.

At La Hague Mr Cohen-Bendit was greeted by rotten eggs and insults on Tuesday from local trades unionists who accused him of wanting to shut down the region's biggest single employer. An evening meeting at Cherbourg was later cancelled after electricians threatened to pull the switches on the assembly hall.

Yesterday, members of the Socialist-led coalition accused Mr Cohen-Bendit of provocation. Daniel Vaillant, minister in charge of parliamentary relations, gave the man once called "Danny the Red", for his distinctive red hair and anarchist views, a public dressing down.

The incident highlighted the increasingly uncomfortable role of the Greens in prime minister Lionel Jospin's coalition as the European parliament elections approach and their profile is raised by the strength of fellow Greens in the German government of Gerhard Schröder.

Nuclear policy has become especially sensitive, with the French Greens emboldened in their anti-nuclear crusade by the recent German decision to phase out nuclear power and end nuclear fuel reprocessing contracts with Cogema, the French group that runs the plant near Cherbourg.

"The international ecologist movement is in the process of laying down the law to the French government," said Francois d'Aubert, opposition deputy, yesterday. "The government is showing a strange weakness in this affair."

Although the Jospin government agreed to close the costly Superphénix nuclear reactor programme on taking office in 1997, it has remained firmly attached to nuclear energy which accounts for the bulk of France's electricity needs. However, the nuclear lobby fears pressure from the Greens and the example of Germany could weaken the government's resolve.

Mr Jospin last December sought to placate his own Green partners by postponing a decision on how to stock radioactive spent nuclear fuel in France.

● The French nuclear industry set aside FFr166bn (€25bn - $29bn) with a further FFr41bn in off-balance sheet provisions in 1997 for the dismantling of power stations and future charges related to France's extensive nuclear installations. These provisions were revealed yesterday in the annual report of the public accounts office.

EU ECONOMY PROJECTION OF 2.4 PER CENT LIKELY TO BE REVISED DOWN

World crises hit growth forecast

By Peter Norman in Brussels

The European Commission yesterday warned it would probably revise down expected growth in the European Union this year from the 2.4 per cent it forecast last autumn because of crises elsewhere in the world economy.

But Yves-Thibault de Silguy, commissioner for monetary affairs, underlined that "Europe has all the wherewithal to overcome this crisis". There was no sign of deflation in the EU, he added.

Presenting the Commission's annual economic report for 1999, Mr de Silguy said recent evidence suggested business confidence had weakened and investment and industrial output would be lower than previously expected.

On the other hand, economic fundamentals in Europe were strong, with consumer confidence robust.

"The pursuit of sustained economic convergence for the launch of the euro has transformed the EU economy," the Commission said. "A framework of stability is now firmly established."

Inflation in the 11 nation euro area was at a record low of 0.9 per cent in November while the average public deficit of EU member states fell to 1.8 per cent of gross domestic product last year from a peak of more than 6 per cent in 1993.

But the Commission made clear this progress was no reason for complacency. "Budgetary consolidation continues to be a matter of concern," it warned.

The pace of deficit reduction slowed considerably in 1998, while most member states still had to bring their budgets into line with the stability and growth pact agreed by EU countries to ensure deficits do not undermine the single currency launched at the start of 1999.

The Commission suggested some countries should have more ambitious medium term budgetary plans.

A further reduction of the German deficit was "desirable", noting the budget has not yet reached the medium-term objective of being close to balance or in surplus. It suggested France "may have to rein in central government expenditure" during 1999 and expressed reservations about the effects of the 35 hour week on the economy.

The Commission also called on wage bargainers to be "responsible" and make moderate pay demands consistent with productivity increases. Its report avoided giving explicit advice on interest rates to the independent European Central Bank in Frankfurt. But, with an eye on the economic slowdown, it indicated that the ECB might have scope to lower interest rates if necessary.

Tietmeyer warns against 'casino capitalism'

By Tony Barber in Frankfurt

Hans Tietmeyer, the Bundesbank president, issued a thinly disguised warning yesterday against an early cut in euro-zone interest rates, saying this would trigger an outbreak of "casino capitalism" on financial markets.

Mr Tietmeyer, an influential member of the European Central Bank's policy-setting Governing Council, was intervening in the debate on whether the ECB should cut rates soon to stimulate economic growth. Monetary policy, he said, should be steady and reliable but not interventionist.

"It may well be that one can have limited periods of time with artificially low interest rates.

"But this is a double-edged sword. It can easily send wrong signals that could lead to investment mistakes and inflated asset prices, and even threaten the formation of private savings," Mr Tietmeyer said.

"This would tend to move the financial markets – and now I want to use this term – in the direction of casino capitalism.

"And the potential for setbacks becomes greater after a switch back to a more restrictive monetary policy," he told an award ceremony in Bonn.

The ECB's Governing Council, responsible for setting interest rates across the 11-nation euro-zone, is under pressure from some centre-left European governments to promote growth and employment by cutting the benchmark rate as early as next month from its present level of 3 per cent.

The ECB, in its first monthly report since the euro's launch on January 1, suggested on Tuesday that there might be a case for relaxing monetary policy, since global financial turbulence could damage growth in the euro-zone more severely than expected.

Mr Tietmeyer's speech appeared to serve as a reminder that the ECB has by no means decided in favour of an early rate cut.

"A volatile monetary policy oriented to the short term would entail a series of dangers and disadvantages that no one should overlook," he said.

GE acts as midwife at a Spanish industrial rebirth

The importance of its new plant is the confidence it has created throughout the entire region. **Tom Burns** reports

Jack Welch, chairman of General Electric, will today open a Pta82bn (€493m, $572m) manufacturing base for the conglomerate's plastics division in Cartagena - a project which has acted as midwife to an extraordinary industrial rebirth in this south-eastern Spanish port town.

Some five years ago, in the midst of recession in the early 1990s, striking workers set fire to the regional parliament of Cartagena (pop. 140,000). Pilar Barreiro, now the town's mayor, and a member of the regional legislature at the time, remembers it vividly.

"Things came to a head at the end of 1993 when the number of jobs lost rose to more than 9,000," she recalls. "People got angrier and angrier. Three times demonstrators prevented us leaving the parliament building, and finally a group of arsonists burnt it."

Today, Cartagena is booming, and according to the mayor, GE has played a pivotal role in the area's regeneration.

The new plant, which has been under construction for the past three years, will produce 130,000 tons a year of Lexan, a polycarbonate used to manufacture products in a wide range of industries including the telephone, optic disc and motor sectors. Turnover is forecast to be Pta55bn this year.

Ms Barreiro, a law lecturer who became mayor two years after the riots, when the centre-right Popular party won control of the town council, estimates that investment in Cartagena's large municipal area has totalled more than Pta400bn since 1996.

Some 1,300 direct jobs have been created in the past two years - 250 of them at the GE Plastics plant - and at present, 36 industrial projects are under construction or being planned.

The energy group Repsol is spending more than Pta70bn in Cartagena to enlarge storage facilities, establish a new pipeline base and build a combined-cycle generator.

Enagás, Spain's dominant gas importer, which will have GE Plastics as its biggest industrial client, is investing Pta32bn in the area. Other multinationals that have followed the US manufacturer to Cartagena include Air Liquide of France.

"What GE itself has invested is really secondary," said Ms Barreiro. "The importance of the plastics plant is the confidence it has created here and throughout the region."

GE chose Cartagena partly because of the incentives it was offered. Under European Union guidelines, the Spanish government was able to subsidise up to 60 per cent of fixed investment. It was also attracted by the export possibilities afforded by the town's port.

The growing chemical and energy complex that this investment decision created is being built over land occupied by obsolete plants that once concentrated much of Spain's fertiliser sector. The industrial port, which formerly serviced local mines that are now exhausted, is being overhauled at a cost of Pta23bn.

"The upstream side of the GE investment is now pretty much in place," said José Pablo Ruíz Abellán, industry minister in the regional government. "Now that we are the location for a key primary product, we expect a lot of direct investment in the downstream business."

GE Plastics expects to export some 90 per cent of the Lexan pellets it produces at its Cartagena plant.

However, local authorities believe the area will be in a good position to attract companies using Lexan in their manufacturing processes.

"We can offer a lot of available land, good transport infrastructure and skilled labour," Mr Ruiz Abellán added.

Whether or not more investments snowball, GE's commitment appears assured. It has decided to base research into high-tech plastics in Cartagena and will invest a further Pta80bn in a second plant, to come on stream in 2005.

"We will definitely get bigger in Cartagena, and we will be producing a larger variety of products," said Uwe Waschers, chief executive of GE Plastics in Europe.

GE plant has sparked an industrial revival in the Spanish port of Cartagena Corbis

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NEWS DIGEST

RUSSIA AND IMF

Moscow refuses to make changes to budget

Yuri Maslyukov, Russia's first deputy prime minister in charge of the economy, said the government would make no "cardinal changes" to the budget in spite of the International Monetary Fund's charges that it was unrealistic. But Mr Maslyukov said he was hopeful that an agreement could still be reached with the IMF, which opened fresh talks with the government in Moscow yesterday.

The budget, which was passed in its second reading this week, is the toughest financial plan drawn up by any Russian government. But the IMF argues it is not tough enough and is urging the government to aim for a primary budget surplus (before interest payments) of more than 3 per cent this year.

Mr Maslyukov also expressed confidence that the London Club of creditors would agree to continue talking about restructuring Russia's Soviet-era commercial debt rather than declaring it to be in default and demanding immediate repayment.

President Boris Yeltsin, who was admitted to hospital on Sunday suffering from a bleeding stomach ulcer, was said to have gained strength yesterday. Tests showed that the 67-year-old president will not need surgery. But he is likely to be confined to hospital for another two weeks.
John Thornhill, Moscow

RUSSIAN ATOMIC ENERGY

Sales to Iran 'discussed'

Russian atomic energy official said yesterday that a leading Moscow science institute had held talks on selling Iran a nuclear research reactor, but that no contract resulted from the negotiations.

The acknowledgement by Bulat Nigmatulin, deputy atomic energy minister, came a week after the US imposed sanctions against three Russian institutes for allegedly helping Iran develop missile and nuclear capabilities.

"There were talks with Iran on building a nuclear research centre in Iran, and there were different talks on heavy-water and light-water reactors," Mr Nigmatulin said. "These talks did not lead to anything and were halted when talks reached more concrete matters."

The US and Israel are concerned that Iran would use such technology to build nuclear weapons.

The deputy minister named Russia's Nikiet (The Scientific Research and Design Institute of Power Technology), a nuclear reactor design centre, as one of the institutions that had held the discussions with Iran.

The United States last week accused Nikiet of making "material contributions to Iran's nuclear weapons programme". Under the sanctions, it will lose millions of dollars in US government assistance for nuclear safety and other programmes. **Reuters, Moscow**

POLISH REFORMS

Solidarity seeks to end dispute

Poland's Solidarity bloc yesterday sought to end a bitter dispute with its governing partner, the Freedom Union (UW), by agreeing to rethink populist policies and sack a minister blamed for faltering reforms.

Fierce UW criticism of Solidarity's (AWS) lukewarm commitment to free market reforms sparked a crisis in the 16-month-old centre-right coalition, with UW politicians threatening to quit unless AWS met its demands.

Jerzy Buzek, prime minister, fulfilled one of UW's conditions on Tuesday night by sacking the deputy health minister, Jacek Wutzow, an AWS appointee, for bungling the introduction of sweeping changes to health care.

The January 1 reforms were meant to inject free market rigour into the underfunded health system, which had remained largely unchanged since the pre-1989 communist era. The reforms sparked fierce patient criticism and an anaesthetists' strike.

The dismissal came after a crisis meeting on Tuesday of Solidarity's Mr Buzek, AWS caucus leader Marian Krzaklewski and Leszek Balcerowicz, UW leader and finance minister. **Reuters, Warsaw**

EUROPEAN DEFENCE

Aerospace integration talks

Six European governments will meet today in Madrid for talks aimed at advancing the integration of their aerospace industries to help them compete against the US industry, diplomatic sources said yesterday.

The meeting comes two days after British Aerospace announced a merger with General Electric Co's Marconi defence arm that will create the world's third largest defence and aerospace firm with annual sales of over $20bn. As an all British deal, it is seen as an obstacle for future European industry integration.

Representatives, in some cases at ministerial level, are due to attend from France, Germany, Italy, Sweden, the UK and Spain. "This is one of our periodic meetings of the six countries to study the shape of the European aerospace industry," said an Italian diplomatic spokesman.
Reuters, Madrid

SWEDISH ECONOMY

Persson urges tax cuts

Goran Persson, prime minister, yesterday called for substantial income tax cuts while the Left party urged the government to be more flexible on spending ceilings.

In a signal that spring budget negotiations had started in parliament, Mr Persson said he wanted to see income tax reductions that would cost the government SKr30bn-40bn ($3.8bn-5bn) over the next few years. "I want little by little to lower income taxes for taxpayers," he said.

Sweden has one of the highest income tax rates in Europe, with a top level of 60 per cent. The governing Social Democrats have said repeatedly that they are keen to lower taxes for middle as well as low income earners.
Reuters, Stockholm

HUNGARY AND EU

Exemption sought over land

Hungary has sought a derogation – or temporary exemption – on European Union laws on the free sale of agricultural land in its EU accession negotiations, Janos Martonyi, foreign minister, said yesterday.

At this stage, the country has not had to say how long the derogation should last, although the figure of 10 years has been mentioned. The move had long been expected, to protect poor farmers from selling cheaply large portions of their land to citizens of richer EU areas.

Mr Martonyi was also more circumspect than about the EU accession timetable. Mr Martonyi said that he hoped Hungary would join before the end of 2003. The government's target date is January 1 2002, which has been regarded widely as unrealistic. **Robert Wright, Budapest**

Lafontaine announces 'budget for jobs'

By Ralph Atkins in Bonn

Oskar Lafontaine, Germany's finance minister, yesterday unveiled a 1999 federal budget "for new jobs and financial stability", in which he signalled he would push ahead with the privatisation programme inherited from the previous government.

Speaking after the new cabinet approved its first budget since September's election, Mr Lafontaine outlined a programme that would increase spending by almost 7 per cent but cut new borrowing slightly.

He said sales of further stakes in Deutsche Telekom, the telecoms giant, and Deutsche Post, the mail service, would depend on market developments.

The federal government still owns 49.5 per cent of Deutsche Telekom, although a further 22.5 per cent is "parked" with the publicly owned Kreditanstalt für Wiederaufbau, the development bank. Mr Lafontaine said he was "keeping an eye" on Deutsche Telekom's share price. But the sale of further government shares is not allowed by law before the end of this year.

Meanwhile, Deutsche Post, 100 per cent owned by the state, has indicated it expects to be partially privatised in mid-2000.

Mr Lafontaine was helped in his 1999 budget by holding over privatisation proceeds originally expected in 1998. The opposition Christian Democratic Union calculated some DM10bn ($6bn) had been deferred to the 1999 budget, allowing new borrowing to be held at DM56.2bn compared with DM56.4bn in 1998. The CDU also accused him of "accounting tricks" in incorporating into the federal budget special funds, including covering debts inherited from the former Communist eastern German state.

Mr Lafontaine, who has made reducing Germany's 4m unemployed a top priority, said his budget would "create the financial policy framework for more investment and jobs". Supply-side conditions would improve while "overall economic demand would be strengthened over the longer term".

The finance minister will be constrained, however, by deteriorating economic conditions and by his pledges to maintain fiscal discipline.

Although federal spending would increase by 6.8 per cent to DM486bn this year, much of the rise is accounted for by special factors which have been counter-financed. For example, an additional DM9.1bn pumped into the state pension scheme will be funded through higher energy taxes. Adjusted for these factors, spending was up 1.7 per cent.

Mr Lafontaine added DM10bn to the budget of the labour and social affairs ministry compared with plans drawn up by Theo Waigel, his predecessor as finance minister.

Of the ministry's overall DM173.3bn budget - by far the largest - some DM119.6bn is accounted for by the social security system. An additional DM2bn has been included for combating youth unemployment.

Mr Lafontaine's longer term budget plans remain in confusion following a constitutional court ruling this week insisting that child allowances for married couples should be improved. Mr Lafontaine played down the prospect of fresh tax rises to fund the estimated DM20bn annual cost.

Oskar Lafontaine: accused of 'accounting tricks'

D'Alema is kept on tenterhooks

By David Lane in Rome

Massimo D'Alema, the Italian prime minister, was kept on tenterhooks yesterday while the former Christian Democrat UDR, a party in his centre-left coalition, met to decide whether to withdraw its three ministers from the government.

The threat to Mr D'Alema's administration posed by the UDR has again underlined the need for change in the country's electoral system. His government is Italy's 56th since 1945. It would be only the last of many to be brought low by a minor coalition partner.

On the right wing of the government, the UDR has only 27 deputies and is one of many political fragments scattered around the Italian parliament. The UDR is led by Francesco Cossiga, a former Italian president who has earned the nickname of *picconatore* (axeman).

In October, the centre-left administration headed by Romano Prodi, Mr D'Alema's predecessor, was brought down when the Reconstructed Communists, on the government's left wing, withdrew their support. RC had 34 deputies after the 1996 elections and split after the fall of Mr Prodi's administration.

A decision by the constitutional court on Tuesday to allow a referendum this spring will, however, offer Italians the opportunity to limit the risk of coalitions being held to ransom by fringe parties.

The referendum was sought by a reform alliance that wants to abolish the allocation of 155 seats in the 630-strong chamber of deputies by proportional representation. The referendum will be held between April 15 and June 15 and opinion polls suggest that a large majority of Italians favour the change.

Politicians from Italy's main political parties yesterday indicated support for the referendum. Walter Veltroni, who heads the left wing DS, said the referendum opens the way for a two-party system and for guaranteeing government stability.

Both Forza Italia and Alleanza Nazionale, the main rightwing parties, also welcomed the referendum. But Italy's greens and the small leftwing parties have said that they will campaign for a "No" vote.

The referendum will be avoided if parliament moves quickly to enact legislation having the same effect. This, however, would require co-operation between Mr D'Alema's administration and the opposition - something likely to run into objections from the government's minor parties.

Dissolution of parliament would cause the referendum to be postponed for a year. Last night it seemed unlikely Mr Cossiga's manoeuvrings would lead to this.

Pause in Romanian march

Romania's striking coalminers yesterday evening paused in their march towards Bucharest just 5km short of road blocks manned by some 3,500 riot police after Radu Vasile, the prime minister, offered to hold talks, writes Joe Cook in Bucharest.

Mr Vasile's offer came as the interior ministry issued nationwide orders to local authorities and police forces to "prevent unrest" and as the defence minister, Victor Babiuc, repeated his warning that the army would, if necessary, be called in to stop the band of up to 10,000 miners from reaching the capital.

President Emil Constantinescu will later this week hold an extraordinary session of parliament to discuss the crisis.

The miners, who are striking in support of a 35 per cent wage rise and protesting against the planned closure of 140 pits, last night camped in the village of Costesti some 200km from Bucharest.

After regrouping in the coal town of Tirgu Jiu, where they had spent the night after two days marching by foot, the miners embarked for Bucharest yesterday morning in 70 buses, 220 cars, 16 vans and four trucks.

Despite the apparent stand off between the miners and the authorities, industrial unrest appeared to be spreading elsewhere in the country. Local news agencies reported that 8,000 workers at the state owned Roman truck factory in Brasov, 180km north of Bucharest, held demonstrations in the town square against a planned restructuring of the company. In the Black Sea port of Constanta, leaders of the dockworkers trade union called for an indefinite strike at Romanian ports.

Brussels presses Elf-Aquitaine on aid

By Emma Tucker in Brussels

The European Commission is putting pressure on Elf-Aquitaine, the French petroleum company, to provide more information on subsidies granted by the German authorities to help privatise and clean up the large Leuna chemical site in the former East German state of Saxony-Anhalt.

Senior Commission sources said unless Brussels received the details, it would demand repayment of part of DM1.4bn (€715m - $829m) in aid. Elf has received DM1bn of the aid, and is waiting for the final DM400m. The last tranche has been blocked as a result of a Commission investigation.

A consultants' report for the Commission suggests that the subsidies granted to Mider, a subsidiary of Elf, and cleared by the European Commission in 1993 were based on building cost estimates that far exceeded the actual costs of construction.

A move by Brussels to force repayment of the aid would stir political tensions in Germany, where the Leuna project represents a landmark industrial regeneration project in Germany's former Communist east.

However, the Commission - which has to uphold fair competition in the European market - started an investigation into the subsidies in 1997 following reports that the building costs amounted to DM2.4bn rather than the estimated DM3.3bn, on the basis of which the state subsidies were permitted.

Karel Van Miert, EU competition commissioner, has repeatedly clashed with Germany over a state aid policy that has frequently gone beyond what is permissible under the EU treaty.

Elf said neither it nor the German government had seen the Commission's report. It "formally contested" the idea that the refinery's total cost exceeded the real cost of construction.

● The European Commission is threatening to put a stop to a system of subsidies supplied by the Dutch government to 524 petrol stations situated along the Dutch-German border, unless the Dutch government provides it with more information. The subsidies are intended to compensate the garage owners for an alleged drop in receipts resulting from a rise in Dutch excise duties on light oil, charged since July 1997. The aid decreases in proportion to the distance of the petrol station from the German border. The Commission says it had not received the information it needs to be able to judge whether the aid exceeds permissible state aid thresholds. According to the Dutch government, total subsidies amount to €57.2m ($49m) depending on the turnover recorded. The Commission will rule against the system in two weeks unless the Dutch government supplies it with the necessary information.

Sale of SAA stake to go ahead soon

By Victor Mallet in Johannesburg

As many as five groups of international airlines may bid for a minority stake in state-owned South African Airways following government announcements that the long-delayed privatisation will proceed in the next few weeks.

The South African government wants to keep majority control of the airline, but will sell about 25 per cent to a foreign partner, with a further stake being offered to black South African investors.

Merrill Lynch, the US investment bank advising the government, will make formal recommendations soon on how to handle the sale, government officials said yesterday. "The discussions with the interested suitors will be starting shortly," SAA said.

Executives from Lufthansa, the German airline which plans to make a joint offer with Singapore Airlines, are in Johannesburg this week to press their case. "Our co-operation with SAA dates back to 1996," said Rolf Kaptur, special adviser to the Lufthansa board. "This is something we think could be very much in our favour."

Mr Kaptur added: "We see a big potential in this market. There is a lot of tourism coming down here, and on the corporate side there's a lot of investment from Germany."

Virgin, which competes with SAA on the busy London-Johannesburg route, confirmed it was interested yesterday. British Airways refused to comment, but industry observers believe it is unlikely to bid. Other possible bidders include American Airlines, KLM of the Netherlands together with Northwest of the US, and Swissair.

The privatisation, first mooted in 1995, has been plagued by repeated delays. One problem was SAA's pension fund liabilities of R4bn (£395m) but it has been agreed that R3bn of these will stay with Transnet, the state transport group, leaving only R1bn on SAA's books.

SAA, which made a net operating loss of R307m in the six months to September, has also begun to manage itself as a commercial enterprise. Loss-making routes, such as those to Dubai and Copenhagen, have been dropped, and further rationalisation is on the cards.

The value of the airline has yet to be established, but Coleman Andrews, the US chief executive, told parliament last year that the government could raise more than R1bn from the sale of a minority stake.

South African government officials were divided yesterday on how long it would be before the deal was done, but one said it could be completed by July.

Mboweni joins central bank

Tito Mboweni, until recently a government minister and senior member of the ruling African National Congress, will take on a management role at the South African Reserve Bank, the country's central bank, four months earlier than expected, the bank announced yesterday, **Victor Mallet reports.**

The rand fell to what was then a record low of R6.75 against the dollar in July last year after Mr Mboweni was named to succeed Chris Stals as Reserve Bank governor from this August.

Mr Mboweni will take responsibility for the internal management of the bank in April, although Mr Stals will continue to run monetary policy until his term expires. Mr Mboweni has spent the last six months working as Mr Stals's special assistant.

Now the hard bit: Nazarbayev takes the oath yesterday after a dubious poll victory. Reviving the economy is a harder challenge

Kazakhstan's strongman faces doughty foe in the economy

By Carlotta Gall in Almaty

Celebrating his inauguration yesterday for a second seven-year term as president of Kazakhstan, Nursultan Nazarbayev might have been tempted to relax. Yet he faces a much harder task than that of winning the election.

By his own prediction Kazakhstan is facing at least two years of severe economic difficulties. 1999, he says, will be a "crisis year".

Western economists agree. "They have had a couple of shocks recently with a decrease in demand from Asia for their commodities in terms of volumes and unit prices," says one. "Also they have had a shock from the Asian and Russian crises making portfolio investors wary of Kazakhstan."

For all its rich resources of oil and minerals, and attendant foreign investment, Kazakhstan is struggling to make ends meet. Low oil and commodity prices have cut revenues by a third in the last year and the economic crisis in Russia has robbed the country of its main trading partner.

There is a widespread belief among the 16m weary citizens of this vast central Asian republic, that with the elections over, prices will rise, the currency, the tenge, will fall and wage arrears and power cuts will once more be a feature of life.

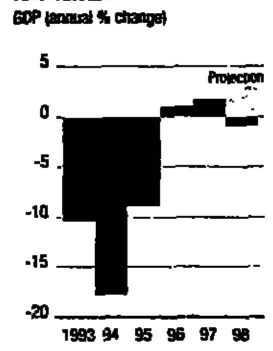
Countries across central Asia are feeling the fallout from Russia, in particular pressure on their currencies and a fall in foreign investment as confidence wanes.

In Kazakhstan the crunch is already happening. The government had hoped for 3 per cent growth in 1998 as the country began to climb out of a decade of economic collapse since the break-up of the Soviet Union.

But largely because of low oil prices, the economy instead contracted. The government has been forced to withdraw the 1999 budget, already passed by parliament, to revise it and recalculate the effect of lower commodity prices on GDP.

It had been aiming for a budget deficit of 3 per cent of GDP but that is now in doubt, unless there are heavy cuts in government expenditure. Exports are down substantially as Russian customers cannot pay and foreign investment in the oil industry has fallen.

Kazakhstan
GDP (annual % change)



Source: IMF, National Statistics Office

Revenues from privatisation and tax collection are likely to head downwards too. Plans to sell off four blue-chip companies last year never materialised and in the current climate is not expected to generate much cash. Tax revenue represents just 11.5 per cent of GDP.

The government is apparently prepared to practise some belt-tightening. It already has a plan to cut expenditure on the new capital Astana, slashing the budget from $100m to $25m.

The plan to transform the dingy Soviet-era Astana into a sparkling new capital with lavish public buildings has been a personal project of the president. Such a sharp cut in the budget is therefore seen as a sign of real economic pressure.

Opposition politicians are forecasting broad economic collapse and even a premature end to Nazarbayev's rule. But the business community in Almaty is more optimistic and has so far commended the government's performance.

The government acted fast and decisively after the Russian crisis broke last August, and brought in western bankers for consultations within 48 hours.

The International Monetary Fund has also expressed satisfaction with the government's handling of the international crisis and in December released $217m, the first tranche of an extended fund facility to replenish the country's reserves.

Nevertheless accusations by the Organisation for Security and Co-operation in Europe of numerous irregularities in the presidential election have raised doubts about Mr Nazarbayev. The international community, however, appears to believe that only he can guarantee continuity and stability.

King Hussein 'still to decide' about ousting Crown Prince as chosen heir

By Judy Dempsey in Jerusalem

King Hussein of Jordan yesterday continued to fuel speculation about the succession, saying he had "thoughts and ideas" about replacing Crown Prince Hassan as the designated heir.

In an interview given to CNN television, a day after the king returned to Jordan from the US where he had undergone cancer treatment for over six months, he said he had still to make up his mind about who would succeed him.

If so, it can no longer be assumed that Crown Prince Hassan, 51, will automatically gain the title of monarch even though a constitutional amendment in 1965 allowed the king to appoint his younger brother heir.

King Hussein said he did not want to be committed "to anything whatsoever". He added he had always had to take the final decisions, "and although this has been contested at times, it is my responsibility and I will come to it in the appropriate time".

His remarks, said diplomats, had increased rumours, already in circulation for several months in Amman, of a power struggle between the generations in the royal household.

They said Queen Noor, the king's fourth wife, wanted her eldest son, Prince Hamza, to be monarch. Prince Hamza, 18, was singled out in one of the king's homecoming speeches on Monday, in which he thanked his son for remaining at his hospital bedside at the Mayo Clinic, Minnesota.

The prince is attending a military college in the US.

However, diplomats said Toni Gardiner, the king's British-born divorced second wife, wanted her son Abdullah to be considered for the title.

Aged 26, he is a lieutenant-general in the Jordanian army, where, according to diplomats, he is popular among his men and has built up a formidable power base in the Bedouin-dominated military.

Whatever the outcome, diplomats said Crown Prince Hassan had done a reasonable job, especially over the past six months. "It has not been easy for him," said one diplomat. "He has always lived in the shadow of the king who for nearly five decades is the only leader many Jordanians have ever known."

Like the king, Crown Prince Hassan supports a gradual process of democratisation. But he often seems more at ease in academic circles and has still to establish a rapport with ordinary Jordanians who regard King Hussein as a kind of father figure.

"Frankly, given his stature among Jordanians, and since he been so open to them about his health, maybe the king should be open about the succession and provide clarity and a sense of direction," said a veteran diplomat.

Hussein: television interview has fuelled speculation

STATE OF THE UNION ADDRESS

Clinton goes for tobacco's jugular

By Mark Suzman in Washington and Richard Tomkins in New York

Tobacco companies were shaken yesterday by the surprise announcement in President Bill Clinton's State of the Union address that the US Justice Department would file a lawsuit to recover the federal government's costs of treating smoking-related diseases.

In early afternoon trading, shares in Philip Morris were down $2⅜, or 4 per cent, at $48⅝, and British American Tobacco's American depositary receipts were down $1, or 5 per cent, at $20¾. However, shares in RJR Nabisco, which has recently seen buying by Carl Icahn, corporate raider, was up $⅝ at $28¾.

The move appeared to signal an aggressive new White House campaign against the industry after the collapse of last year's proposed $516bn national tobacco settlement in Congress. That plan, which had been strongly backed by Mr Clinton, failed after an intensive lobbying effort by tobacco companies.

Mr Clinton said that smoking had cost the government "hundreds of billions of dollars" but did not specify an amount the government hoped to recover. The industry last year reached a $206bn settlement with 46 states over similar lawsuits.

Mr Clinton also reiterated his desire to pass a new law to authorise tougher tobacco regulation by the Food and Drug Administration. In addition, the White House indicated it planned to seek a new 55 cents a pack tobacco tax in next month's budget proposals.

Tobacco companies dismissed the president's announcement as a "political gesture" and said they were confident of winning any lawsuit. Scott Williams, an industry spokesman, said the move was particularly disappointing because the companies had made a genuine effort to co-operate with the White House in the past.

Industry analysts were also sceptical about the prospects for the new suit, which would require the Justice Department to prove that people had not been adequately warned about the dangers of smoking.

Martin Feldman, a tobacco analyst at Salomon Smith Barney, said that the federal government itself in 1964 published the famous Surgeon General's Report on Smoking and Health, which said that smoking could kill.

"It can't now claim it didn't know," Mr Feldman said. "Since then it has legislated for the industry, regulated it through various agencies and taxed it, so in essence it became the industry's partner."

Mr Feldman also said he expected the industry to fight the lawsuit rather than negotiate a new settlement. He said the companies had settled similar lawsuits brought by the states because there were so many, but would be more likely to challenge a single case.

The Justice Department said the new lawsuit would not include any of the money recovered by in the settlement with the states, which encompasses some federal spending through the Medicaid health insurance programme for the poor. However, it estimated that other tobacco-related government health spending on armed services personnel to the Medicare system for the elderly, was "even larger".

A department spokesman denied accusations by tobacco companies it had previously rejected filing a lawsuit against them, saying officials had merely delayed taking action in the hope of a legislative solution.

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Education proposals open political gap

By Richard Wolffe in Washington

President Bill Clinton made wide-ranging proposals in his State of the Union speech to improve education standards, but his comments opened a fault line between Democrats and Republicans on the federal government's role in the school system.

On the surface, his plans seem highly moderate, raising funds for several popular programmes while suggesting strict tests for teachers and students alike.

The president called for an end to "social promotion", where students graduate from high school regardless of their standard, at the same time as proposing more funds for up to 1m children in after-school and summer school teaching.

But the more dramatic initiatives centre on under-performing teachers and schools. The president pledged $200m to help states and school boards improve or shut down bad schools. He called for them to issue report cards on the performance of all schools, in order to give parents more information about the choice of local schools.

The Republican response to the president's proposals highlights how even moderate education policies have become engulfed in the highly partisan debate over the size and scope of the federal government.

Steve Largent, an Oklahoma Republican, said: "For far too long we've allowed Washington to dictate how our children are taught. One of our priorities is to give control of our schools to local communities.

"We want the most important election affecting your children's education to be the one that decides who sits on the school board, not who you send to Washington."

In practice, Washington influences the educational system through $30bn of federal aid, representing less than 10 per cent of public education spending.

But Diane Ravitch, a senior fellow at the Brookings Institution in Washington, argues that the federal government does not have the manpower or management skills to use its influence as the president plans.

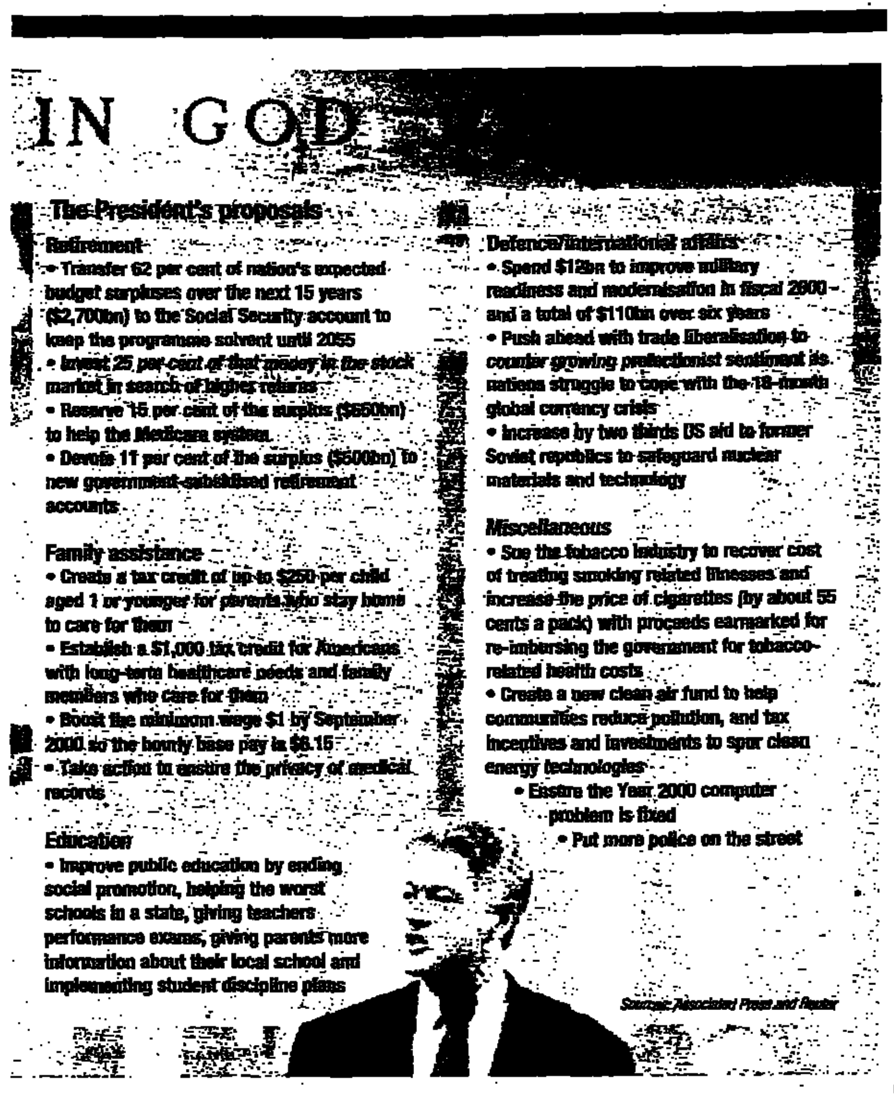
"I am sure these proposals have been carefully focus-group tested, because they are all very populist," she said. "But the biggest problem is that the federal government and Department of Education have no capacity to monitor any of this."

However, educational groups broadly welcomed the president's speech.

The National Association of State Boards of Education said they would support any measures to introduce sanctions against under-performing schools, as long as they were also given support to improve their teaching. The American Federation of Teachers said it backed the White House's "common-sense initiatives".

Outside the educational establishment, the debate is certain to intensify in the run-up to the presidential elections in 2000.

David Boaz, executive vice-president of the free-market Cato Institute in Washington, said: "The president has forgotten he is no longer a governor. Governors are responsible for our state educational systems, not the president."



Fed unlikely to act on share prices

By Stephen Fidler in Washington

Alan Greenspan, chairman of the Federal Reserve, yesterday delivered a two-edged message to investors in the US stock market.

In testimony to the ways and means committee of the House of Representatives, he told them that although asset prices had to be carefully monitored by the Fed, they were not themselves the target of monetary policy.

The message was that the Fed would not intervene just to spoil the party on Wall Street. But if stock prices fell – and he was cautious about current levels – the Fed would not act just to arrest their decline.

"While asset values are very important to the economy and so must be carefully monitored and assessed by the Federal Reserve, they are not themselves a target of monetary policy. We need to react to changes in financial markets, as we did this fall, but our objective is the maximum sustainable growth of the US economy, not particular levels of asset prices," he said.

In his first speech this year, Mr Greenspan made it clear that the Fed's decision to cut interest rates last autumn – by three-quarters of a point in three steps – was a response not to a sharply falling stock market but to extreme risk aversion that developed in financial markets after the Russian debt default last August.

"We were particularly concerned about higher costs and disrupted financing in debt markets, where much of consumption and investment is funded. We were not attempting to prop up equity prices, nor did we plan to continue to ease rates until equity prices recovered, as some have erroneously inferred. This has not been, and is not now, our policy or intent," he said.

Wall Street now stands above the previous record levels it attained last July, and the Dow Jones Industrial Average has gained some 2,000 points since September. Yesterday, the market shrugged off Mr Greenspan's comments after weakening initially.

Mr Greenspan said that financial markets "are again channelling an ample flow of capital to businesses and households" after freezing up temporarily after the Russian default.

He said some moderation in economic growth, however, might be required to sustain the current unprecedented US expansion. "Through the end of 1998, the economy continued to grow more rapidly than can be currently accommodated on an ongoing basis, even with higher, technology-driven productivity growth."

He said the recent behaviour of profits also underlined "the unusual nature of the rebound in equity prices and the possibility that the recent performance of the equity markets will have difficulty in being sustained. The level of equity prices would appear to envision substantially greater growth of profits than has been experienced of late."

Mr Greenspan linked high US asset prices with the allocation of capital in the US, apparently more efficient than in other countries. He concluded his prepared remarks with a warning that protectionist policies could quickly upset this picture.

"Policymakers are going to have to be particularly wary of actions that unnecessarily sow uncertainties, undermine confidence, and interfere with the efficient allocation of capital on which our economic prosperity and asset values rest.

"In this regard, drift toward protectionist trade policies, which are always so difficult to reverse, is a much greater threat than is generally understood."

Full text of Greenspan speech on www.ft.com/americas

World welcomes call for new trade liberalisation talks

By Guy de Jonquières in London and Frances Williams in Geneva

President Bill Clinton's call for a new round of negotiations to liberalise world trade was welcomed yesterday in Brussels, Geneva and other world capitals.

Sir Leon Brittan, European Union trade commissioner, who has been pressing for the launch at the end of this year of a millennium trade round, said it was "very heartening to find our efforts meeting success in such a crucial quarter".

However, Sir Leon warned that the US still needed to show clearly its commitment to WTO rules by drawing back from recent threats to impose unilateral sanctions in trade disputes with the EU, Canada and Japan.

Renato Ruggiero, head of the World Trade Organisation, said it was very important to have the US, as the world's largest trading power and host to the WTO ministerial conference at the end of this year, committed to a round.

Mr Ruggiero said support was growing among WTO members for expanding its agenda to include negotiations on lowering tariffs.

The WTO ambassadors of Australia, Canada, Hong Kong and Singapore, which are all pushing for a new round, all said they were encouraged by Mr Clinton's remarks.

US to spend extra $6.6bn on boosting missile defence

The US plans to spend an extra $6.6bn on a national missile defence programme, to counter a growing threat from rogue states, it said yesterday.

It would try to modify a treaty with Russia if necessary, to allow the system to be deployed. Reuters reports from Washington.

William Cohen, defence secretary, said the extra funding was to fight a growing threat from weapons of mass destruction to US troops abroad, as well as Americans at home.

"We are affirming that there is a growing threat and that it will pose a danger not only to our troops overseas but also to Americans here at home," Mr Cohen declared.

He cited North Korea's Taepo-Dong I missile test on August 31 1998 as a strong indicator that the US faced a rogue-nation missile threat.

Mr Cohen said deployment of the National Missile Defence (NMD) system would require amendment of the Anti-Ballistic Missile (ABM) Treaty negotiated with Russia.

"While our NMD development programme is being conducted consistent with the terms of the ABM treaty, our deployment may require modifications to the treaty."

The administration was working to determine the nature and scope of these modifications," Mr Cohen added.

US housing starts hit 10-year high

US construction starts on new homes and apartments soared in December to cap the strongest year for new-home building in more than a decade, the Commerce Department said yesterday. Reuters reports from Washington.

Total housing starts jumped 3.5 per cent in December to a seasonally adjusted annual rate of 1.72m after a revised 1.8 per cent decline to 1.662m in November. December's building rate was the fastest since the 1.726m figure recorded in March 1987. For 1998 as a whole, starts totalled 1.616m – the highest annual total since 1.621m homes were built in 1987.

The housing sector has been a potent force driving US expansion since the last recession ended in 1991. Low mortgage interest rates and a booming stock market have fuelled demand for new homes and fostered easier sales of used ones.

Analysts said the housing sector was poised for a strong start in 1999 but must eventually level off.

It has to be said, this guy would win another election if they'd allow him to stand

Christopher Parkes watched the president on a bar TV and found he had not lost the ability to charm just about anyone

"He's got Rosa Parks in the audience!" Servers from the restaurant at the Brentwood Inn deserted their tables for two minutes, clustering by the bar TV. Diners munching shrimp looked up. Smokers, exiled to the street outside by Californian law, dashed in to see the mother of the civil rights movement, who in 1955 refused to vacate a whites-only bus seat, take her bow.

"This guy can't lose," said one smoky voice.

"He's pulled out the last stop," said Terence, whose call had brought them running.

The high point of President Bill Clinton's State of the Union speech for a cross-section of Angeleno West-siders and Democrats nationwide passed in a moment. But Terence, a "habitual Republican", had been smitten almost from the outset.

He, in common with the half-dozen other paying customers in the Brentwood Inn, had taken a new look at the man his party wants to throw out and wondered why.

"Is he still talking?" asked a patron whose name appeared to be Laurie, early in the bar and late in from the sidewalk smoking zone. "You know they've limited him to an hour," he said, his nose dipping into his umpteenth vodka and something.

Terence, who campaigned for George Bush senior and dares doubt his son, Texan Governor George W. Bush, might be a fit match for Al Gore in 2000, hushed Laurie with a stare. He had bypassed his usual bar in Westwood precisely because it refused to show anything but the sports channel on this night of nights.

On the first rainy night in months he had braved driving Sunset Boulevard at its curviest in the rush hour to find a suitable place to observe his annual State of the Union pundit's ritual.

In the Armadillo, five minutes away on San Vicente Boulevard, the dozen young customers, Asian-Americans, were steadfastly ignoring the television, concentrating only on their onion rings.

Later, down in Santa Monica, the sets in Ye Olde King's Head were showing the pop cable networks' nightly ration of bosoms, volume off, captions on. It was darts as usual for the British contingent, but Brit barman Matthew had paid attention and missed the point.

"It's all right promising them this and that. Good luck to them," he said.

Other youngsters, airing their views on local news broadcasts, were similarly unimpressed. One recently scalped young man was disappointed that the murmurings about the president coming up with "something to blow me away" had not materialised.

An Ally McBeal look-alike spent the broadcast looking for glimpses of the First Lady and empathising.

"Now her, I don't like!" howled Laurie in the Brentwood Inn, greeting the shot of a smiling, long-suffering Hillary Rodham Clinton.

Terence, claiming to be a "moderate", doled out a stream of grudging compliments. "It's hard to argue with that," he said, as the president spoke of accountability and value for money in education.

"Not many could deliver it *that* well," offered the barman as he appeared to grasp the meaning of the president's call for an end to "social promotion" in schools.

"This is all Republican stuff," said Terence.

"Only in America," suggested the barman.

'Not many could deliver it that well,' offered the barman as he appeared to grasp the meaning

But the barside Republicans found little to grimace at, apart from the proposed increase in the minimum wage. Laurie even raised a sour laugh from the proposal for tax credits for stay-at-home parents: "Yeah, how about $500 on top of your welfare?"

In an instant of compelling sobriety, he added: "He could win another election if they'd let him stand."

Terence, a middle-of-the-roader of the type who elected Democrat Gray Davis as governor of California last November, was not arguing. "Amen to that," he said as the president cheered the falling cost of medical care and bemoaned its falling quality.

A voice from across the room declared him "the smartest president we ever had", as Mr Clinton pressed on with his reformist agenda for more funds for welfare-to-work.

"I dunno, but he's up there," conceded Terence, acknowledging the stagecraft as the cameras switched from battle veterans, the widows of the murdered Capitol guards and Rosa Parks. "Reagan started this trick of picking out people in the audience," he said as, for once, the whole Congress stood to applaud the civil rights heroine.

"He's doing good," said Laurie. "You're doing good," he told the television set. "If he'd let me smoke in here I'd even vote for him."

Brazil decides against debt restructuring

By Geoff Dyer in São Paulo

The Brazilian government will not need to restructure its large domestic debt after last week's devaluation of the Real, Pedro Malan, finance minister, said in New York yesterday.

Speaking after a meeting with top US commercial bankers, he added: "There is no need for such a move". Mr Malan also ruled out adoption of an Argentina-style currency board.

His comments come amid renewed concerns about Brazil's domestic debt situation, after the government was forced to abandon its dollar peg and let the currency float last Friday.

Economists estimated that the budget deficit would grow by 0.5-1 per cent of gross domestic product as a result of the 24 per cent devaluation, because the Brazilian public sector has about US$85bn of external debts, and because another R$66bn (US$44.9bn) of its R$320bn internal debt is linked to the dollar, according to J.P. Morgan.

The budget deficit is already above 8 per cent of GDP.

Economists believe a debt restructuring is highly unlikely in the short term, but said it would become a possibility if the government did not sharply reduce interest rates over the next few months.

More than R$200bn of domestic debt is linked to the overnight rate, increased to 32 per cent on Tuesday to help stabilise the currency.

According to José Carlos de Faria, economist at ING Barings in São Paulo, if interest rates do not fall, the debt will eventually become too large to finance.

"If the fiscal package is not approved, allowing rates to drop, the government will face the extreme choice of a debt restructuring or printing money, which will spark hyperinflation," he said.

Brazilian financial markets were calm yesterday as investors waited for the result of a vote in Congress on increasing civil service pension contributions, crucial to the government's fiscal austerity plans.

The Real had weakened slightly from R$1.57 to R$1.59 to the dollar by mid-afternoon, a 24 per cent devaluation over the last week, while shares were 2.17 per cent higher. Government whips said they were confident the pensions measure would be approved last night.

President never broke the law, says defence

By Mark Suzman in Washington

White House lawyers yesterday vigorously contested the details of the impeachment charges against President Bill Clinton over the Monica Lewinsky affair, insisting the president had never broken the law.

Opening a second day of defence against allegations that Mr Clinton committed perjury and obstructed justice in covering up his affair with Ms Lewinsky, Gregory Craig and Cheryl Mills, two White House lawyers, said the allegations were untrue and fell below "minimal" standards for conviction.

For his part, Mr Clinton continued to ignore proceedings, as he left for trips to Buffalo and Philadelphia.

In a forceful presentation, Mr Craig focused attention on Mr Clinton's grand jury testimony. He said that while the president had been forced to make "painful, difficult admissions" about "wrongful" behaviour, he had not lied under oath.

Urging senators to scrutinise Mr Clinton's comments, he said it was clear that "legally, structurally and constitutionally", the prosecution could not make a viable case that the president committed perjury.

But the White House seemed increasingly resigned to the Republican majority in the Senate deciding to extend the trial by calling some witnesses, including Ms Lewinsky.

Orrin Hatch, Republican chair of the Senate judiciary committee, acknowledged that the White House legal team had done a "fine job" in arguing for Mr Clinton's innocence, but insisted some testimony was needed to resolve factual disputes: "I think the only way you can resolve these problems is, perhaps, call on witnesses."

The White House defence will conclude today with an overview of the case by David Kendall, Mr Clinton's personal lawyer, followed by a presentation by Dale Bumpers, a former Democratic senator from Arkansas, close ally of the president and powerful public speaker.

Senators will then be given time to ask questions of both sides before moving next week to votes on whether to dismiss the trial or proceed with witnesses.

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Race hots up to lead world trade body

By Frances Williams in Geneva

The race for the leadership of the World Trade Organisation hotted up yesterday with a new set of rankings of the four candidates and indications that Washington may be preparing to announce its support for Mike Moore, former New Zealand premier.

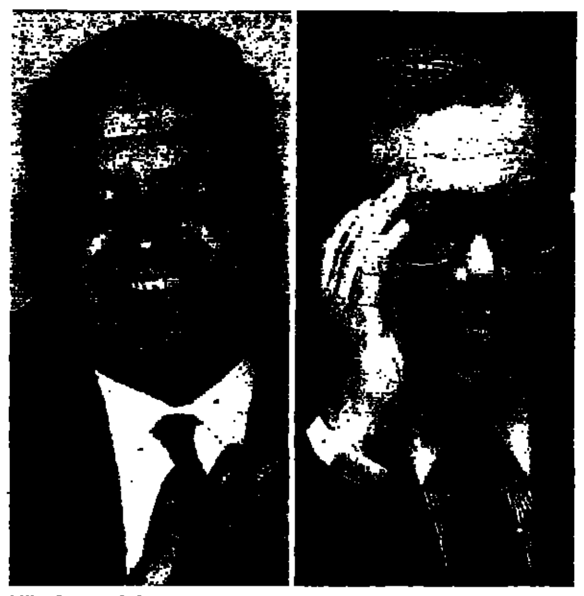
The 133-member organisation is hoping to reach a decision on its next director-general by the end of January, but the process has been delayed partly because Washington and Brussels have not declared their hands. Renato Ruggiero, the current WTO chief, is to leave at the end of April when his term expires.

US trade officials said yesterday that a US announcement was imminent. There is strong speculation that Washington has decided to put its weight behind Mr Moore, with Roy MacLaren of Canada as second choice.

A US endorsement will significantly enhance Mr Moore's chances, but will disappoint developing countries and members of the European Union. Though the EU has so far been unable to reach agreement on a single candidate, there is a strong feeling that the WTO job should go to a developing country and EU members are broadly split between Mr Supachai Panitchpakdi, Thailand's deputy prime minister, and Mr Hassan Abuyoub, a former Moroccan trade minister.

According to the latest straw poll based on consultations with over 100 WTO members, Mr Supachai is well ahead in the "first choice" rankings with 40, followed by Mr Abuyoub (23), Canada's Roy MacLaren is third (15) and Mr Moore last (13).

But in the "second choice" rankings Mr Moore leads, with 26, followed by Mr Supachai(19), with Mr Abuyoub (8) and Mr MacLaren (5) trailing in third and fourth places. Second choices are important because the decision is taken by consensus not voting.



Mike Moore, left, may have US backing while Supachai Panitchpakdi, right, is out of favour in Washington

Trade officials said there would be strong pressure on the lagging candidates to reconsider their position before WTO members meet again next Tuesday.

In addition, William Rossier, Switzerland's WTO ambassador, who is conducting the consultations, said yesterday that a "not negligible" number of countries had indicated they might not be able to join a consensus around certain candidates.

Though US officials continue to stress in public that all four are excellent candidates, Washington appears to have reservations about Mr Supachai who could be expected to oppose any US push to link labour and environmental concerns to trade.

● The March 1 date for entry into force of the WTO's financial services liberalisation accord has been postponed because not all 70 signatory governments will have ratified by the January 29 deadline. The WTO financial services committee will meet in mid-February to consider extending the deadline. Trade officials still expect the accord to come into force this spring.

Jospin's decision to free up use of internet is welcomed

By Samer Iskandar and David Owen in Paris

By announcing a series of measures liberalising the use of the internet, the French government has put its money – some FFr3.7bn (€564m, $654.8m) in the past year – where its promise was.

Telecommunications operators, software and hardware makers, computer users and a wide array of retailers welcomed the decision by Lionel Jospin, the prime minister, to lift restrictions on the use of encryption technology. Liberalisation of encryption had been one of Mr Jospin's first pledges when he formed his government in May 1997.

The move, combined with a call by Mr Jospin for lower internet access costs, paves the way for electronic commerce to take off in France, which has been lagging behind its international trade partners, such as the US, the UK and Italy.

It also comes less than three weeks after the successful launch of the European single currency – the euro – in 11 European Union member states. By removing foreign exchange risk and facilitating price comparisons, the euro is expected to lead to an increase in cross-border trade, including electronic commerce.

Investors welcomed the decision, driving shares in France Telecom, the partly-privatised telecoms operator, up 8.5 per cent to €82.5 on the Paris bourse. Internet-linked revenues are seen as France Telecom's most promising source of future earnings growth.

The previous regulatory framework was widely blamed for consumers' distrust of electronic commerce. With the move to ease regulation, experts are confident that "total safety" can be guaranteed for the electronic transmission of sensitive information, such as credit card numbers.

One expert familiar with the government's plan said the previous limit of 40-bit encryption could be circumvented with a personal computer equipped with a Pentium 300 megaHertz chip. Such computers are widely available for around $1,500.

Experts believe the technology necessary to beat 128-bit encryption – the new authorised limit – will not be available in the foreseeable future. "The 128-bit threshold amounts to total safety by today's standards," he said.

Analysts said Mr Jospin's decision had been forced on him by the fast pace of technological advance and market conditions. France stood out as the only industrialised country regulating cryptology.

Until March last year, it was illegal to use any form of encryption and, before this week's decision, only the use of software with capacity below 40 bits was unrestricted.

Users of more powerful encryption software had to disclose a decrypting code with a "trusted third party", an entity approved by the government and obliged to supply the codes to the authorities when officials suspected encryption was being used illegally.

Meanwhile, encryption software was widely available, sometimes free of charge, on the internet. "The restrictions only affected 'legal' users of encryption, such as the computer industry and companies involved in electronic commerce," said a lawyer in Paris. "Terrorists and money launderers, at whom the law was aimed, were never going to give their decryption keys to the authorities."

A series of tests was introduced in March "to determine whether a given piece of software was legal, but they were so complicated that they proved impossible to apply. The last thing a legislator wants is a law that cannot be applied."

He predicted the lifting of regulations would bolster electronic commerce. "The 40-bit technology allowed us to protect a safety code, such as a credit card PIN number. Encryption at 128 bits makes it possible to protect a whole document. It takes data protection into a whole new dimension."

Mr Jospin's decision had to overcome strong opposition from French police and the army, which required the move to be made in consultation with President Jacques Chirac.

Mr Jospin also put his weight behind earlier calls from senior French politicians for a reduction in the cost of internet access.

NEWS DIGEST

STEEL TRADE CONFLICT DEEPENS

'Japan to challenge US anti-dumping law at WTO'

The Japanese government plans to take a US anti-dumping law dating from 1916 to a World Trade Organisation panel, according to reports in Tokyo. The US law aims to prevent the import and sale of goods on the US market at prices below those in the country of production, and allows companies to bring damage suits to federal courts. Japan says this may breach WTO rules.

Jiji, the Japanese press agency, said the move is a response to US companies' complaints filed with the federal court against US subsidiaries of Japanese trading houses. The US industry charged that Japanese hot-rolled steel products were sold at unfairly low prices.

Washington wants imports of Japanese steel to fall back to 1997 levels, before crisis hit the Asian region and Japan's economy. Japanese steel exports to the US stood at 2.7m tonnes in 1997, while figures for 1998 are expected a climb to around 7m tonnes. **AFX, Tokyo**

IRAQ OIL-FOR-FOOD INSPECTIONS

Swiss group wins UN contract

Cotecna, a Geneva-based group providing pre-shipment inspection services, has won the United Nations contract to inspect all goods imported into Iraq under its "oil-for-food" programme. It replaces Britain's Lloyds Register whose ability to continue effectively monitoring Iraqi imports has been thrown into question following the UK-US bombing of Iraq. The UN said that Lloyds Register's contract had run its course and it put it out to tender.

Since the UN programme started in December 1996, Iraq has imported 8.4m tonnes of food worth $2.4bn, $500m of medicines, and $400m of other urgent supplies. The new contract, which begins on February 1, is a boost for Cotecna, a little known company at the centre of a moneylaundering row between the Pakistan government and the family of Benazir Bhutto, the former prime minister. Cotecna, whose contract to inspect Pakistan imports was abruptly terminated in 1997 after a change of government, believes it has been the victim of Pakistan's internal political rivalries. Cotecna, which has 1,000 staff and 32 offices, has also just won a two year import inspection contract from the government of Tanzania which begins on March 1. It will replace Société Générale de Surveillance, the world's biggest inspection and testing company, which sold Cotecna back to its founders after the Pakistan money laundering row erupted in 1997.
William Hall, Zurich

IRISH SOCCER

I£65m stadium for Dublin

Irish soccer, long considered a "foreign" sport by the rival Gaelic Athletic Association which sponsors the home-grown hurling and gaelic football, is to have its own national stadium in a project worth I£65m (€82.5m, $95.7m). The Irish Football Association yesterday announced plans for a 45,000 seat multi-use stadium which will have a retractable roof and removable pitch. A consortium has been set up including Deutsche Bank, IMG, the company of sports promoter Mark McCormack and Deloitte Touche.

The ground will be used for all home soccer internationals, which until now have been played at Lansdowne Road, the home of Irish rugby. Croke Park, the GAA's national headquarters which received I£20m in the last budget, has repeatedly refused to loan its much larger facilities. The planned stadium is to be built by October 2001 on the western outskirts of Dublin.
John Murray Brown, Dublin

LABOUR STANDARDS

Nike accuses its critics

A senior executive of sports shoe manufacturer Nike has accused critics of the company's labour practices in Vietnam of indirectly seeking to overthrow Vietnam's communist government. In a letter to the head of the state-owned Vietnamese Trades Union Confederation, Nike vice-president, Mr Joseph Ha, said Nike's activities in Vietnam had attracted the attention of overseas Vietnamese groups and others whose "political objective is to create a so-called democratic society" in Vietnam. "Their ultimate objective is politics rather than economics," said Mr Ha. "They target Nike because it creates many jobs in Vietnam."

Mr Ha's remarks are an apparent reference to the role in the anti-Nike campaign of the New York-based group, Vietnam Labour Watch, which is headed by an American Vietnamese, Thuyen Nguyen. The group was only one of a number of labour organisations involved in the campaign. In May last year Nike's chief executive, Phil Knight, announced steps to improve environmental standards and other conditions at its sub-contractors.
Jonathan Birchall,Hanoi

Territory 'harmed by high cost of property'

By Rahul Jacob in Hong Kong

The competitiveness of Hong Kong is being eroded by the high costs of doing business in the city, its government was warned yesterday by business leaders from around the world.

The first meeting of a heavyweight advisory council that includes News Corporation chairman Rupert Murdoch and American International Group's chief executive Maurice Greenberg said Hong Kong was looking increasingly costly compared with its arch-rival Singapore.

"*The perception is that* Hong Kong is an expensive place. Rents have fallen, but whether they have fallen enough is an open question," said council member Sir William Purves, former chairman of HSBC Holdings.

Hong Kong's government *set up the council to help* devise fresh approaches to managing its economy in response to a recession that saw GDP shrink by an estimated 5 per cent last year. Both Singapore and Shanghai have used similar conclaves of multinational executives to make their cities more attractive to foreign investors.

Property prices in Hong Kong have roughly halved since their peak in 1997 but they remain among the highest in the world. Attempts to cut wages late last year by one of the territory's biggest employers, Hongkong Telecom, were blocked by *spirited protests*. Tung Chee-hwa, the territory's chief executive, ruled out cuts in corporate taxes, which are already a low 16 per cent. "There are no quick fixes," he said.

The members of the council, which will meet once a year, reiterated proposals already made by the government, such as its plans to increase spending on education and to focus on value-added manufacturing and services in areas such as telecommunications and financial services. Hong Kong was also urged to develop its own brands as most of its exports are sold under the label of US and European companies.

Mr Tung said the government would spend HK$253bn (US$32.7bn) on education, directed especially at primary education and improving the standard of English.

BASIC LAW CONSTITUTIONAL DISPUTE AS EXECUTIVE BLOCKS PRIVATE MEMBERS' BILLS BECAUSE IT CLAIMS THAT THEY WOULD AFFECT PUBLIC EXPENDITURE

Hong Kong legislators see powers slip away

By Louise Lucas in Hong Kong

Hong Kong's legislature *faces a further dilution of* its powers after the government used provisions in the Basic Law, the territory's *mini-constitution, to block* two private members' bills.

Lee Cheuk-yan, who proposed the bills, is now seeking legal advice before a final ruling on the government's move. He said the government reading breached the common law principle of generous and purposeful interpretations of the constitution.

The government's interpretation of the provisions, which have not been tested since the Basic Law came into effect after Hong Kong *reverted to Chinese sovereignty* in July 1997, could stifle the legislature's ability to introduce private members' bills, legal experts said.

On Tuesday, the government blocked two private members' bills on collective bargaining and anti-union discrimination claiming they would affect government operation and increase public spending. Under the Basic Law, members of the Legislative Council (LegCo), cannot introduce bills relating to either.

However, Peter Wesley-Smith, professor of constitutional law at Hong Kong University, said that by using a wide definition of the areas beyond the scope of private members' bills the government could be breaching the spirit of the Basic Law provision.

"If you take a broad view of what the government does, in theory there could be no right for any legislator to introduce a private bill. The whole purpose of Article 74 [of the Basic Law] is to give that opportunity," he said.

"You could say every single bill would relate to public expenditure in some way, but that cannot have been the intention of the drafters of the Basic Law."

Rita Fan, president of LegCo, who must rule whether or not to allow the government's definition – and hence its blocking of the two labour bills – indicated a more narrow definition of government to include only the executive.

But given Ms Fan's conservative, pro-Beijing credentials, and strong backing for Tung Chee-hwa, Hong Kong's chief executive, she may be tempted to follow the government line. "The Chinese side always referred to executive-led government, and they obviously want to keep LegCo fairly constrained politically," said Mr Wesley-Smith.

Private members' bills have in any case become a rare breed. In the 1996-97 session, 40 were introduced, of which just over *half* were passed. None were introduced during the reign of the provisional legislature, installed by China immediately after the handover, and just four have been presented during the current session.

LegCo's democratic evolution went into reverse after the handover of sovereignty, when the 60-strong body was ousted in favour of a more conservative grouping hand-picked by a small pro-China selection committee.

Even after the elections in May, which returned a strong contingent of pro-democracy politicians, LegCo was enfeebled by regulations which require amendments and bills to secure two majorities, including one from the so-called functional constituencies. These mostly conservative legislators are selected by small professional and business groupings.

Sharif must flex political will to make reform work

IMF has resumed lending but Pakistan *must deliver its side* of the bargain. **Farhan Bokhari** and **Peter Montagnon** report

For Nawaz Sharif, Pakistan's prime minister, last week's decision by the International Monetary Fund to resume lending marks a "*milestone*" in his country's painful journey to economic rehabilitation.

For more cynical economists, the new deal – part of a $5.5bn package that will also include a wide-ranging debt rescheduling exercise – is the country's last chance to pull itself back from the abyss of default towards which it has seemed drawn.

Announcement of the deal *last Thursday night* met only a muted response in Pakistan, partly because the country was already deep *into the holiday period* marking the end of the holy month of Ramadan. But there is also a weary recognition that so many IMF programmes for Pakistan have foundered before, so this one may not be all that different.

In theory Mr Sharif ought to be in a strong position to deliver the kind of reforms for which the IMF is now asking. With three years to go before the next election, he faces little institutional opposition either in parliament or from the military. But questions remain about his skill in economic policy-making and his ability to get round vested interests that *have defied reform* in the past.

"To make reforms work, you've got to have a commitment to attack influential lobbies," says Salman Shah, former chairman of the privatisation commission. "Unless a qualitative change comes about, the objectives of a rescue package would remain unfulfilled."

Among the IMF's central *targets for Pakistan* are a progressive reduction in the budget deficit to 3.3 per cent of gross domestic product in the next two years from 5.5 per cent in the fiscal year to June 1998. *This will* involve a controversial attack on subsidies to state-owned power companies and a reduction in the federal subsidy for wheat.

'To make reforms work, you've got to have a commitment to attack influential lobbies'

But Pakistan is helped by the fact that it has already raised the rate of its general sales tax to 15 per cent from 12.5 per cent, and officials say its public finances have also received a windfall boost from a fall in the price of oil.

As the government-controlled domestic fuel price *has not fallen*, the lower international price of oil has boosted revenues by some PRs50bn ($1bn) *compared with the average in* recent years. The figure is about 10 per cent of budget spending.

The debt rescheduling should also finally help stabilise Pakistan's notoriously volatile external finances. According to the IMF programme, reserves should have recovered to $1.6bn by the end of the fiscal year, roughly double their present level, and some $1.7bn in arrears should have been dealt with.

A start is to be made on *debt rescheduling* by governments meeting at the Paris Club next week. Pakistan has told commercial banks it *planned shortly to set up a* steering committee to negotiate debt rescheduling. Between them official and commercial creditors will reschedule some $2bn of debt due this year – though next year's maturities could be added to the deal – while the central bank is negotiating the rollover of about $1.3bn in dollar deposits held by non-residents.

Mr Sharif's challenge will be to hold all the elements of the package together. The Paris Club rescheduling will *be conditional on a similar* arrangement with the London Club of commercial creditors, and this will be complicated by the question of how to treat bond issues on which Pakistan has just managed to keep service payments current. "We are hoping they will keep the bonds out of the London Club," said Barry Field of ANZ Bank in London.

The rescheduling will also depend crucially on Pakistan keeping up with its IMF programme. Here doubts centre *on whether the IMF has* been too optimistic in its expectations of growth being maintained at 3 to 4 per cent *and rising to 5 to 6 per cent* in the medium term.

Private-sector forecasters are decidely less optimistic, with expectations of growth for the current year of only 0.5 per cent, according to Consensus Economics. Weak growth could blow the fiscal revenues off target, upsetting the whole programme.

In recent months, Pakistan's international trade performance has given few reasons for optimism. The trade deficit fell to $612m during the first half of the July-June financial year, from $1.17bn during the same period a year ago. This reflected a sharp fall in both exports and imports, underlining depressed activity levels in industry.

Nor is the outlook encouraging in the farm sector, where the wheat harvest has been hit by drought. While Pakistan's latest rice crop has been the best in the past three to four years, the cotton output is expected to fall below the government's initial estimates.

The three crops together account for more than three quarters of the agricultural *output. In turn agriculture* accounts for about a quarter of total gross domestic product.

'We need to have at least a five-year perspective on how to reform the economy'

Mr Zakir Mehmood, Pakistan head of Credit Agricole *Indosuez, says the IMF loan* provides breathing space for making structural reforms work, but even under the *best of circumstances* Pakistan will need a long time to turn its economy round.

"We need to have at least a five-year perspective on how to reform the economy and to decide clearly where we go from here."

Japan's carmakers report falls

By Julie Hess in Tokyo

The big five Japanese carmakers yesterday all reported falls in domestic sales and production in 1998, highlighting the degree to which the industry has been hurt by the worst recession since the second world war.

The fall affected even the financially sound and profitable Toyota and Honda, which admitted that a steep fall in domestic demand had not been offset by exports.

As for domestic sales, almost all companies reported sales declines of between 12 and 15 per cent. The only exception was Mazda, which reported a sales drop of 6 per cent. Thanks to popular models such as the Demio, Mazda *lifted its market share* for registered vehicles from 5.7 per cent to 6.5 per cent.

Mazda also proved to be the most successful exporter in 1998, recording an increase of 2.7 per cent. Nissan reported a 2 per cent rise, mainly because of higher sales in Europe.

Toyota and Honda both reported a slight fall in exports partly because of *solid growth in overseas* production. Both companies expanded their production capacity last year, primarily in North America, in a move which may help to avoid friction over imports.

Mitsubishi reported a notably bad year, partly because of its high exposure to south-east Asia, with exports down 5.2 per cent and overseas production dropping 27.2 per cent. The big five car producers are not expecting a repetition of their disastrous performance in 1998. Their domestic sales projections show an average increase of 6.5 per cent after double digit declines a year earlier.

But analysts were sceptical. Koji Endo, automotive analyst at Schroders, said: "The domestic sales targets are as usual too optimistic. The recession will continue and with more people being laid off, car sales are not likely to increase." Mr Endo forecast a flat domestic performance with no big differences among the big five.

Peter Boardman, analyst at Warburg Dillon Read, agreed: "There is a high correlation between real disposable income, which we think will decline in 1999, and car sales."

Meanwhile, analysts said carmakers' cautious export projections of an average minus 3.4 per cent could be achieved. Stephen Usher, analyst at Jardine Fleming, said: "The export forecast is fairly realistic. The overseas' demand will slow down, but not collapse."

Japanese car makers feeling the recession

Sales 1998

	Domestic sales	% change	Exports	% change
Toyota	1,711,037	-14.7	1,462,776	-2.1
Nissan	903,572	-13.3	705,730	2
Honda	690,225	-13.9	530,717	-2.5
Mitsubishi	600,857	-12.3	522,988	-5.2
Mazda	318,866	-6	555,717	2.7
Total	4,224,557	-11.8	3,777,928	-1.2

Sales targets 1999

	Domestic sales	% change	Exports	% change
Toyota	1,800,000	5.2	1,430,000	-2.2
Nissan	950,000	5.1	610,000	-13.6
Honda	750,000	8.7	540,000	1.7
Mitsubishi	650,000	8.2	500,000	-4.4
Mazda	350,000	9.8	570,000	2.6
Total	4,500,000	6.5	3,650,000	-3.4

Source: Companies

Manila considers stance on Spratlys

By Tony Tassell in Manila

The Philippines' National Security Council will convene today to discuss mounting tensions between Manila and Beijing over the disputed Spratly Islands in the South China Sea.

The meeting of the presidential advisory body, the first since the Estrada administration came to power in July, is a sign of the Philippines' concern over an issue *that has long* been considered a diplomatic flashpoint.

Antagonism has been *steadily mounting since* China last year expanded several structures on a contested area of the islands *called Mischief Reef.*

China claims the structures are merely shelters for fishing crews, but Manila *has criticised* them as an intrusion on its exclusive economic zone that could be used for military purposes.

This week a Philippine military report alleged further construction at the site supported by two-armed Chinese frigates in the area.

"The convening of the NSC indicates that the territorial dispute with China over islets claimed by the Philippines can no longer be shoved to the background," said Amando Doronila, a leading political columnist. "It has become the foremost national security problem of the country."

The Spratlys, which are believed to have significant oil and natural gas reserves, are claimed in part or whole *by China, Vietnam, the Philippines*, Malaysia, Taiwan and Brunei.

Joseph Estrada, the Philip*pine president, this week* instructed his Department of Foreign Affairs to start bilateral talks with Chinese counterparts over proposed *joint* use of the Mischief Reef facilities. The move follows opposition to other recent diplomatic initiatives.

NEWS DIGEST

TEST BAN TREATY PLEDGE

India 'not to conduct further nuclear tests'

India has told Britain it would conduct no further nuclear tests until it signed the 1996 Comprehensive Test Ban Treaty later this year, *in a move that will* do much to repair the political damage done by India's surprise atomic detonations last May.

Derek Fatchett, UK Foreign Office minister, said Brajesh *Mishra, national security* adviser to the Delhi government, had, in talks in London, "repeated India's commitment to sign the CTBT and said the moratorium on testing would continue up to the signing". Though India has talked of signing the CTBT in the future and declared a present moratorium on tests, this was the first *confirmation that* Delhi plans never to test again.

In a separate press conference, Mr Mishra acknowledged "we are moving forward towards resolution of the CTBT issue", but he said the Indian government *wanted to* get more of "a national consensus" behind it before publicly renouncing any further testing. Signature of the CTBT treaty is one of several non-proliferation moves which the US, *led by Strobe Talbot, US secretary of state*, has been pressing India to take. **David Buchan, London**

INDONESIAN CLASHES

Christian-Moslem fighting

At least nine people have been killed in clashes between Christians and Moslems in the eastern Indonesian town of Ambon and more troops have been sent to the area to restore order, according to church sources yesterday.

"I've received reports the death toll has risen to nine. But it may rise again. . . it can be more than 10. The town is deserted because nobody dares to leave their homes," the Rev Frans Luthermas said in Ambon, around 2,300 km north-east of Jakarta.

"Tension slightly eased this afternoon and troops from the Kostrad [strategic reserve] have arrived in Ambon from Ujung Pandang to help restore order," said Rev Luthermas referring to the provincial capital of South Sulawesi.

The official Antara news agency reported more than 10 people died in two days of unrest involving Moslems and Protestants in Ambon. It said more than 100 people were *hurt and more than 30 houses burned during the violence* which started on Tuesday, the first day of the Moslem Eid ul-Fetr celebration marking the end of the fasting month of Ramadan. **Reuters, Jakarta**

KOREAN STOCK EXCHANGE

Soros stake sparks probe

The Korea Stock Exchange yesterday said it was investigating whether Seoul Securities engaged in insider trading on its shares before the recent purchase of a controlling stake in the brokerage by George Soros, the international financier. Seoul Securities denied any wrongdoing.

Shares in Seoul Securities rose sharply from the beginning of January when the brokerage first suggested that Mr Soros might invest, and hit a new-year high of Won17,700 last Friday, when the deal was announced. **John Burton, Seoul**

CHINESE SENTENCE

Internet dissident jailed

China yesterday handed down its first sentence for dissident activities by e-mail, raising fresh doubts *over Beijing's* attitude toward the Internet just as hopes for the commercialisation of Chinese-language Internet services were gaining ground.

Lin Hai, 30, (left) a computer engineer in Shanghai, was imprisoned for two years for supplying about 30,000 e-mail addresses to VIP Reference, a "hostile foreign organisation" based in the US which had been sending essays on Chinese politics to *Internet* users. Mr Lin was sentenced for trying to undermine state power. VIP Reference is one of many groups in the US that sends dissident material into China. One Chinese e-mail user said he had not applied to receive *material* from VIP and other organisations, but they had been sent to him anyway.

Mr Lin's sentence sets a benchmark for what China, which employs a squads of cyberpolice to block undesirable and "subversive" sites, *may not be prepared* to tolerate. But industry analysts said the internet threatens to be a long-running problem for the machinery of Chinese state control. **James Kynge, Beijing**

SINGAPORE TRADE

Doubts over competitiveness

Singapore's non-oil domestic exports rose just 0.9 per cent to S$92.4bn (US$55bn) last year *compared with 1997* as the city-state's competitiveness slipped in the wake of steep depreciations recorded by neighbouring currencies.

The Trade Development Board said yesterday the government's recent introduction of S$10.5bn *in nationwide* corporate cost cuts "would boost export competitiveness". But it added that the outlook for this year was uncertain.

The board tentatively predicted that Singapore's trade would drop 5 per cent to 7 per cent this year. *It blamed last* year's trade decline on "weak economic conditions in the crisis-ridden economies which account for 39.4 per cent of total trade", as well as limited worldwide demand for electronics. **Sheila McNulty, Kuala Lumpur** s slip away

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PEACE PROCESS BERTIE AHERN FEARS IMPACT OF CONTINUING 'CATCH 22' DEADLOCK OVER IRA WEAPONS HANDOVER

Irish premier warns of northern 'hell'

By John Murray Brown in Dublin

Bertie Ahern, prime minister of the Irish Republic, warned yesterday that "all hell would break loose" if the pro-British Ulster Unionists attempted to form the planned Northern Ireland government without Sinn Féin, political wing of the Irish Republican Army.

Northern Ireland faced a "Catch 22" situation, Mr Ahern said during an official visit to Israel. Unionists wanted reassurance that the IRA "meant business", but the IRA would not disarm until Sinn Féin was part of the government. "Nobody has any bright ideas" about ending the deadlock, Mr Ahern added.

He predicted that there would be no guns handed in by the IRA, in which case David Trimble, the Ulster Unionist leader and first minister of the region, would seek to move ahead without Sinn Féin. Mr Ahern predicted that Mr Trimble would announce in mid March "that he is honour-bound by the agreement to set up an executive and now wants to go ahead ... minus Sinn Féin". But he warned that Sinn Féin and the moderate nationalist Social Democratic and Labour party would vote against this.

"And then all hell will break loose; so I suppose from where I am, I have to avoid that situation at all costs." Mr Ahern said, predicting "a very tough few weeks" before powers are due to be transferred to the executive in mid-March.

His gloomy analysis comes after a bomb attack on the village of Loughinisland, admitted by the anti-nationalist Orange Volunteers, in which a man was slightly wounded.

The village suffered one of the worst atrocities of "the Troubles" when members of the anti-nationalist Ulster Volunteer Force shot dead six men in a pub as they watched the 1994 World Cup soccer final on television.

David Ervine, a senior member of the small, pro-British Progressive Unionists, political wing of the UVF, said the Orange Volunteers were "more or less the same people who form the membership of the Loyalist Volunteer Force". The LVF has declared a ceasefire.

Mr Ervine warned further attacks were likely.

● A Conservative MP yesterday postponed plans to name individuals allegedly involved in the bombing of the Northern Ireland town of Omagh last year and in continuing "punishment beatings", writes Jimmy Burns in London. Andrew Hunter said he was seeking legal advice after being warned by the UK government and the Northern Ireland police chief that he risked prejudicing a successful prosecution of those responsible.

CONSTITUTIONAL REFORM

Ancient voting rights of lords to be curbed

By Deborah Hargreaves in London

The government yesterday unveiled a sweeping reform of the House of Lords, the unelected upper chamber of parliament. The move is the latest step in prime minister Tony Blair's programme of constitutional reform which will see the creation of separate assemblies for Scotland and Wales this year.

The government's first move will be to abolish the rights of hereditary lords to sit and vote in the upper house, removing a privilege that has existed for centuries. The government plans to replace some of these hereditary peers with life peers who are nominated to sit in the upper house for their lifetime.

Another government aim is to blunt the power of the unelected House of Lords to thwart legislation from the elected House of Commons.

Hereditary peers are aristocrats who inherit their titles and their right to sit in the upper house from their parents. They include many dukes and earls while life peers include former senior politicians such as Baroness Thatcher, the former Conservative prime minister, and Lord Hurd, who was foreign secretary in her government.

The House of Lords is steeped in centuries of pomp and ceremony. The gilt ornaments and red leather benches in the chamber at Westminster are redolent of its grand history, as are the red cloaks trimmed with rabbit fur and wigs worn by the Lords on ceremonial occasions.

Although 1,295 peers are entitled to sit in the house, fewer than a third of these turn up and even fewer actually speak about legislation. The 15th Lord Stafford spoke for the first time recently to say how sad he was at the eviction of hereditary lords from the house. His title dates back to 1640, but his family has had a seat in the lords since 1299.

"During those six centuries, three members of our family had their heads chopped off – not entirely careless to lose one ancestor every 200 years, particularly as we kept choosing the wrong side," he said.

Hereditary peers outnumber the life peers and as they usually belong to the Conservative party, this gives the house an in-built Conservative majority even when, as now, the country has a Labour government.

At the last national elections to the House of Commons the percentage of votes won by the three largest parties was: Conservative, 34; Labour, 48; Liberal Democrat, 18. Of members of the House of Lords who belong to those parties, 66 per cent are Conservatives, 24 per cent Labour and 10 per cent Liberal Democrat.

The House of Lords is not allowed to propose legislation under the present constitutional system. Its powers are not precisely defined as they are in many other countries where the duties of a second chamber are enshrined in a written constitution. Its chief role is to scrutinise legislation; it can revise and make amendments to existing bills and it can reject them.

If the Lords rejects legislation, it has to pass back to the House of Commons for further consideration. The Commons can then present the bill back to the Lords which will usually pass it. However, the Lords nearly caused a constitutional crisis last year when it rejected a bill on the choice of candidates for this year's European parliament elections five times. The government had to invoke a little-used law to push the legislation through.

Baroness Jay, leader of the House of Lords, explains the reform plan. Baroness Jay is the daughter of Lord Callaghan, another life peer, who was the last Labour prime minister before Tony Blair. Baroness Jay was married to Peter Jay when he was UK ambassador to the US in the 1970s credit here

Who are the Lords?
(Listed by rank)

Princes	1*
Archbishops	2**
Dukes	28
Marquesses	34
Earls and countesses	174
Viscounts	103
Bishops	24**
Barons and other lords	929
Total	1,295

* Charles ** Church of England
Source: House of Lords

Scottish nationalist hardliners win strong backing

By James Buxton in Edinburgh

Members of the separatist Scottish National party have given strong support to "fundamentalists" who believe a victory in the first elections to Scotland's parliament in May would justify immediate negotiations with London for Scotland to secede from the UK.

Such opponents of the gradualist approach of Alex Salmond, the SNP leader, have been voted into strong positions in the party's lists of candidates.

Mr Salmond has repeatedly said the SNP wanted to make the new parliament work, adding that if it won a majority it would hold a referendum on independence.

Helen Liddell, deputy chief minister for Scotland in the UK government, said the SNP's list was full of people who were "hell-bent on strangling the Scottish parliament" by using it to pursue independence.

Margo MacDonald and Kenny MacAskill, who both oppose Mr Salmond's gradualist approach to Scottish independence, came top of the list of regional candidates for the Lothians district. Several SNP officials appointed by Mr Salmond came well down the lists.

Ms MacDonald, a former SNP MP in the House of Commons, has said a referendum on independence would be an irrelevance.

Party members have voted to decide the ranking of candidates in the regional lists for the proportional representation section of the parliament, which comprise 56 of the 129 seats. Because the SNP's support is fairly evenly spread, the majority of its members of the new parliament are likely to be elected in that section.

The governing Labour party, running neck-and-neck with the SNP in opinion polls, is expected to do well in the first-past-the-post section, where there are more seats. First-past-the-post is the traditional system in UK parliamentary elections, in which the candidate with the highest vote wins the seat even if he has polled a minority of the votes cast.

● Sir Cameron Mackintosh, the theatre impresario, has pulled out of buying Knoydart, a 7,000 ha estate in one of the remotest parts of the Scottish Highlands writes Christian Tyler.

The purchase would have given a large measure of control to local inhabitants. His decision will test the Labour government's recent declaration of support for communities seeking to wrest Scottish estates from negligent landowners.

Restaurant rights to go under the knife

Politicians in the House of Commons have been trying to eject the aristocracy from the House of Lords for almost 90 years, George Parker writes. This time they are certain to succeed. By the end of this parliamentary session – probably in October – the ancient rights of the hereditary lords will end.

Not only will they be banned from voting in the upper house but they will also be deprived of "club rights" at what are widely regarded as the most splendid – and cheapest – bars and restaurants in central London.

Margaret Beckett, leader of the House of Commons, yesterday warned the opposition Conservatives that they would be cutting their own throats if they sought to prolong the political lives of the hereditaries. She said they would "jeopardise" the deal struck between Tony Blair, the prime minister, and Lord Cranborne, the former Conservative leader of the Lords, to allow 91 hereditary peers to sit in an interim upper chamber.

The big question now is how quickly the government will move to fill the red leather benches once the aristocrats have returned to their country estates. The Conservatives are convinced that the interim house will turn into a semi-permanent house of Blair allies.

Liam Fox, the Conservatives' chief constitutional spokesman, claimed yesterday that Mr Blair would be in no hurry to move to "stage 2". "We will now go into the next election not knowing how parliament will look the other side of the general election." Mr Fox claims the interim house – comprising life peers (lords whose titles cannot be passed down the family line), political appointees, the residual hereditary lords and cross-benchers (independents) – will outlive its welcome.

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LIBERAL DEMOCRATS ANNOUNCEMENT TESTS PARTY'S COLLABORATION WITH BLAIR GOVERNMENT

Third-party leader to quit at next election

By Our Political Staff

Paddy Ashdown, leader of the pro-European Liberal Democrat party for 10 years, astonished parliament yesterday by announcing he would quit after elections to the European parliament in June.

He also intends to stand down as an MP at the next national elections and vowed yesterday never to fight another.

But few observers believe Mr Ashdown is about to leave public life. The European Commission, United Nations and Nato have been touted as possible employers.

The bigger question is what happens to Mr Ashdown's "project" – the collaboration with the Labour government founded on his close personal relationship with Tony Blair, the prime minister. Mr Ashdown told the prime minister after the last national elections in May 1997 that he intended to stand down in 1999. The two leaders regularly dine together and their wives enjoy each other's company.

Mr Ashdown claims his party's commitment to closer co-operation with Labour goes far beyond their personal relationship – a claim that will now be put to the test.

There was warm praise yesterday from Mr Blair's office. "The prime minister views Paddy Ashdown as a politician of considerable distinction who makes a major contribution to his party and country," it said.

The Liberal Democrats are the third-biggest party in the House of Commons and, at 57, Mr Ashdown is one of the oldest party leaders. His party has been out of power for more than 75 years and Mr Ashdown is best known for pursuing what he calls "constructive opposition".

In 10 years as leader he has taken the Liberal Democrats from the edge of extinction to to the best election performance by a third party for 70 years, in 1997.

Since the election he has consolidated the party's position, giving it a significant influence over government policy while operating as a more effective opposition than the Conservatives.

Lord Jenkins, the Liberal Democrat peer and former president of the European Commission, regretted the loss of "a most admirable leader". He said: "When he took over in the spring of 1988, the party was in a terrible state and he has built it up into an absolutely major force in both national and local politics."

In 1988, the party had sunk to 4 per cent in opinion polls. By the 1997 elections its vote had increased to 16.8 per cent, winning 46 seats, more than double the total achieved in the previous national elections in 1992.

NEWS DIGEST

PRIVATE EDUCATION

Schools seek permission to test pupils for drugs

Some of Britain's top private schools are asking parents to sign "drug testing" contracts as a condition of their child's admission. The strategy – giving headmasters the freedom to test for cannabis, ecstasy and even heroin – is designed to curb the alarming rise in drug abuse among privately-educated pupils. Stephen Winkley, head of Uppingham School, and spokesman for the Boarding Education Alliance, said the practise was on the increase amid fears that schools could become embroiled in costly litigation with parents. Nearly a third of pupils aged 14 or 15 have experimented with illegal drugs, according to a report published yesterday by the Headmasters' and Headmistresses' Conference. The HMC, which represents 240 elite fee-paying schools, including Eton and Harrow, also found that one in eight pupils aged over 16 and one in 10 pupils aged 14 or 15 use drugs regularly. Cannabis is the most commonly used drug but the HMC, which surveyed nearly 2,500 pupils, found that roughly one-sixth of 14 or 15 year olds thought that cocaine was safe, if used properly. The schools point to the lax attitude of politicians, including Tony Blair, the prime minister. Patrick Tobin, former chairman of HMC, said: "This is a time when pop stars equate cannabis with cups of tea, and are invited to 10 Downing Street [the prime minister's official London residence] nevertheless." **Simon Targett, London**

THE ECONOMY

Retail sales growth slows

Retail sales growth has slowed sharply, official figures showed yesterday. Retail volumes fell 0.9 per cent in December from the previous month, the Office for National Statistics said. Volumes rose 1.4 per cent in the three months to December from a year before, the lowest rate of growth in nearly two years. This compares with an annual increase of 2.5 per cent for the three months to November. "The gloom should not be overstated and is certainly not disastrous. Consumer confidence remains at high levels," said Jonathan Loynes at the HSBC banking group. The pound dropped nearly a cent during London trading to close at $1.645 against the dollar. **Chris Adams, London**
Currencies Page 23

MERGER ACTIVITY

Value of IT deals at $31bn

Merger and acquisition activity by UK information technology groups in Europe increased sharply last year, with the value of deals increasing by more than half to £19bn ($31.3bn). It was also the first time that more UK companies had made acquisitions in Europe than had been acquired. The move underlined the growing strength of the UK IT industry, which saw two companies – Misys and Sema – enter the FTSE 100 list in 1998. The deals, included in a report from Regent Associates, the IT consultancy, led to the overall number of transactions involving UK companies rising by 20 per cent to 539. Peter Rowell, chief executive of Regent, said the position of the UK industry as the most active was down to three factors: the number of IT companies, high levels of external investment and the interest of US companies in the UK as a bridgehead into Europe. **Christopher Price, London**

MITSUBISHI ELECTRIC

Line to close in Scotland

Apricot Computers, the European offshoot of Mitsubishi Electric's PC division, is to shut its surface mount technology line at Glenrothes, Scotland, making 200 people redundant. The work will be subcontracted. Apricot employs 600 people in Europe. Other jobs will go in Germany, where the sales office of Apricot, acquired by Mitsubishi in 1991, is to close. **James Buxton Edinburgh**

AIRLINES

BA deal to be investigated

The government yesterday referred British Airways' proposed £75m ($123.7m) takeover of CityFlyer Express, the regional carrier, to the Monopolies and Mergers Commission. Stephen Byers, trade and industry secretary, said the proposed takeover, announced in November, raised concerns about competition for airline services in south-east England. The deal would lift BA's share of take-off and landing slots at London's Gatwick airport from 29 per cent to more than 40 per cent. **Michael Skapinker, London**

COMMERCIAL RADIO

Watchdog to relax restrictions

The Radio Authority, the industry watchdog, is today expected to relax programming restrictions on commercial stations. The biggest radio companies have put pressure on the authority to introduce lighter regulation to allow them to compete more effectively with the BBC, the public service network barred from broadcasting advertising. The authority will say that licences will no longer include a detailed promise of performance which, among other requirements, forced stations to broadcast exact percentages of speech and music. Instead, operators will have to comply with a more general "format" describing the character of a service more briefly. **Cathy Newman, London**

Royal Opera chief defiant in the face of the critics

Last year was a difficult one for Sir Colin Southgate but he is determined that 1999 will be better. **Antony Thorncroft** reports

"Resignation is not in my nature," says Sir Colin Southgate, chairman of the Royal Opera House, Covent Garden. A good thing, perhaps. Since taking the helm last March, Sir Colin, also chairman of the EMI group, has:

● lost Mary Allen, his chief executive, who subsequently accused him of disparaging women in management;
● nearly lost Bernard Haitink, his respected music director;
● suffered a review by Sir Richard Eyre, the former head of the Royal National Theatre, which accused the Covent Garden board of inadequacy;
● been embroiled in disputes with dancers, musicians and back-stage staff that brought Covent Garden to the point of closure;
● fallen out with Sadler's Wells, the arts company that was planned to provide a home for the Royal Opera and Royal Ballet during the rebuilding of the Royal Opera House;
● failed to find a new artistic director; and
● cancelled the entire opera programme for 1999, to prevent the overdraft spiralling out of control.

But that was last year.

Now Sir Colin is contemplating a calmer, more optimistic future. The new Covent Garden, a formidable £214m ($353m) redevelopment that is already imposing itself on central London, will be completed next month. The programme for the first season will be announced, with an opening gala fixed for December 1. "I am now very positive about the whole thing," Sir Colin says.

"It has been a much more difficult year than I expected; I was quite shocked by the state of things at Covent Garden; there was no information, no figures, nothing," he explains. It took him until May to sort out the financial position.

Years of trimming costs, taking short cuts and making false savings produced Covent Garden's crisis. The only solution was more subsidy and Sir Colin has persuaded the government – in the form of the Arts Council – to give the Royal Opera House an extra £10m over the next three years.

In return, Sir Colin has had to implement more effective management.

The much bigger Royal Opera House will have a staff of 700 when it reopens, against 900 before. He has reduced the number of performances in the first full season to 220. He has hired Michael Kaiser, a new chief executive, from New York who, in addition to calming nerves and oozing confidence, has a reputation for attracting sponsorship.

The aim is to make Covent Garden socially worthwhile and artistically excellent, so that companies and individuals will be happy to double the £5m they currently contribute each year to its budget. Past benefactors, like Vivien Duffield and Lord Sainsbury, are staying true and most of the £100m of private money needed to complete the rebuilding is in place. With lower seat prices for the public – although not for its corporate friends – Sir Colin hopes Covent Garden will shake off its elitist reputation.

Colin Southgate: 'I was quite shocked by the state of things at Covent Garden' David Ahmed

Sir Colin praises the workforce at Covent Garden as "dedicated and poorly rewarded" and admires the artistic temperament he has had to battle so hard against. "It is like the record industry – people that are creative have strong views. We say that 'our product has an opinion'. It is the same at Covent Garden," he explains.

There are still problems. Sir Colin believes the Royal Opera House needs £10m more in grant. He anticipates getting nearer £6m. There is also a deficit that may grow to £20m by March 2000. Sir Colin hopes the success of the rebuilt house will win round government and the public, enabling him to run a full programme – and a break-even season – in 2001-02.

THE ARTS

CINEMA

A family out of tune with reality

Nigel Andrews on another musician maimed by a movie

Imagine a world where concertgoers only attended performances by the physically, mentally or emotionally disabled. That is what happens, essentially, in movies about music.

Two years ago we had *Shine*, the story of an adorable mental case who could play the piano, though follow-up concert performances by the real David Helfgott left music critics more doubtful. Before *Shine* we had Ken Russell going around classical music like a combination of Florence Nightingale and Oliver Sacks. "Ah! There's a hag-ridden homosexual (Tchaikovsky)". "Ah! There's a wife-tormented paranoid maniac from Austria (Mahler)".

Before even Russell directors homed in on the deaf (Beethoven), the racist

HILARY AND JACKIE
Anand Tucker

BULWORTH
Warren Beatty

CLASS TRIP
Claude Miller

THE POLYGRAPH
Robert Lepage

PRACTICAL MAGIC
Griffin Dunne

(Wagner) or those who were punchbags for political persecution (Shostakovich). Mozart himself had to be turned into a juvenile delinquent from the Bronx's Viennese Quarter – or so he seemed in Tom Hulce's Amadeus – before he was filmable.

Here is a suggestion so novel that you may need time to think about it. How about a film on a musician that focuses on the *music*? I thought we might get this with *Hilary and Jackie*. Jacqueline du Pré made the cello sound like Shakespeare's sweet thunder, distilled through a blend of passion, rapture and control. She was a great musician. She was even married to one.

Unfortunately for everyone, and tragically for herself, she was struck down by MS. No less unfortunately for moviegoers she had a book written about her by her brother and sister. They portrayed her – with answerless Jackie gone to the great rehearsal room in the sky – as a boil-in-the-bag egomaniac who needed 24-hour attention, exulted in her victory in the Sibling Rivalry stakes and took sister Hilary's husband Kiffer for a lover. Poor Kiffer. He obviously couldn't say no, but we can only hope that he didn't enjoy it.

With relatives like this who needs character assassins? And with a movie like this, who needs to waste time thinking musical biopics will improve? Anand Tucker directs like a man with a mission: make sure that filmgoers know that Jackie is off her trolley before their thoughts can start wandering to the popcorn stand. It helps to have a mad father like Charles Dance, who says to Hilary's boyfriend before she and he visit a Soho cinema, "You do realise there are white slavers working in that area?"

Dance, like Pa Helfgott in *Shine*, is probably concussed by all those montage sequences of multiplying music trophies. Jackie, who as played by the large-browed intense-eyed Emily Watson looks Expressionistic even before she has started playing, is soon auditioning priceless cellos ("The magic is in the varnish" a Davidov supplier tells her) and rehearsing for her spoiled-child persona by sending laundry home to Ma from Russia.

Sister and author-to-be Hils (Rachel Griffiths) suffers nobly. Initial bitterness over her own crash-and-burn career – she could have been a great flautist but for domesticity and that awful "Just play the note" teacher (Vernon Dobtcheff) – gives way to compassion and husband-sacrifice. She is there for Jackie when the poor girl falls out with Danny (Barenboim), falls in with Kiffer and finally goes mad – who wouldn't? – to the sound of endless repeat strains from the Elgar Cello Concerto.

There are intelligent people who admire this film. They like its dual-perspective structure, whereby we get one sister's view of the story followed by a rewind to the other's. (I thought they had muddled the reels.) And during cello-playing sequences they like all those raving camera-dolly movements and low-angled views of oompah-oompah arm movements.

I kept thinking: None of this has any serious connection with the experience of listening to du Pré at home on your hi fi. That is a world free of bombast and charged with honesty, beauty, revelation and a rich, huge, unrhetorical passion. Why can't the cinema capture this? Why must we be forever beating the bushes for the maimed, the mad and the grandstanding?

★

I assure you I have not taken Scrooge tablets, but why did American critics so praise *Bulworth*, the week's other movie preceded by its reputation? I like Warren Beatty. The actor-director-producer who in one or more guises gave us *Bonnie And Clyde*, *McCabe And Mrs Miller*, *Shampoo*, *Reds* and *Bugsy* does not need a sibling biography – that would be written by Shirley MacLaine, what a thought – to persuade us he is a gifted egomaniac.

Bulworth, though, is a doodle of a comedy pretending to be a doozy. (You get the idea and can get all the best lines in the trailer.) Political candidate Beatty is a man with an oft-televised mantra – "I'm Jay Bulworth. We're standing at the doorstep of a new millennium" – until the day that he goes off-message. A moment of tearful personal despair (something Beatty could not carry off in a month of Actors' Studio classes) rips open his honesty and he is soon giving the public the Truth. The funny Truth. More alarmingly, the Truth in rap form.

The premise of a spin-doctoring Jekyll turning into the Hyde of a death-wishing oppressed-minority motor-mouth, complete with street-negro threads (ski cap, shades, baggy Bermudas), jive patter and a contract put out for his own death, could have been – to embrace the lingo – a blast. But it's more like an early frost. The verbal gusts are lovely while fresh: "My guys are not stupid," he tells a convention of rich bigwigs, "they always put the big Jews on my schedule." The Jews gasp; we gasp. But how long can gasping go on? The joke wears out its welcome. So does the attraction of a fictive Washington tragicomedy less compelling than the real one being docusoaped right now from the Capitol.

The French film *Class Trip*, which begins wonderfully and teases us promisingly for an hour, is an enigma wrapped and finally suffocated in a mystery. We are fascinated by the runic mental processes of young Nicolas (Clément Van Den Bergh), who has nightmares after being delivered to the school skiing camp by his over-protective father (François Roy). But director and co-writer Claude Miller, who deftly blended thriller and psycho-study in earlier films (notably *Such Sweet Sickness*), here titrates ever more *grand guignol* into the mixture. We end up with paedophilia, organ bandits and a main character crudely demonised to provide the answer to "Whodunit?"

The Gallic complexities of *The Polygraph* are more ambitious, though no more satisfying. Canadian avant-gardist Robert Lepage wove this thinking person's *policier* about crime, truth and identity, dyeing it fashionably dark and added *appliqué* guest actors. Peter Stormare, of Bergman's *Hamlet* and Spielberg's *The Lost World*, stands out, though it might be better if he hadn't. Stormare confirms how much more show we would have liked – more thrust, wit and point – and how much less gnomic pseudo-substance.

Nicole Kidman and Sandra Bullock romp around a gingerbread Gothic manse in *Practical Magic* as two witch-craft-skilled sisters trying to give up the family habit. But the real witches here are the casting agent, make-up person and director. How could the children chosen to play the young Kidman and Bullock in early scenes look *so* like them? How did Stockard Channing as their aunt come to look so like Elizabeth Taylor? And how – creepiest of all – did director Griffin Dunne make the film resemble a genuinely promising comedy, for 40-odd minutes, until archness and contrivance caused it to explode like a helium-filled Halloween pumpkin?

All low-angled views of oompah-oompah elbow movements to Elgar: Emily Watson as Jacqueline du Pré in 'Hilary and Jackie'

MUSIC

Pianists' virtues set in sharp relief

A 67-year-old Russian pianist, Dmitri Bashkirov, played in London's Wigmore Hall on Sunday afternoon. For the BBC lunchtime recital there on Monday, it was the turn of the German pianist Lars Vogt, who is not yet 30. They both concluded with Brahms. Hardly any similarities beyond that; but hearing them one after the other set their distinct virtues in relief.

Bashkirov is also a distinguished teacher in many countries, and he is one of the few living pianists still to embody a specific tradition and style of pianism. (The piano-manners of modern performers are generally more eclectic: it's only the less gifted ones whose mannerisms immediately betray the schools they came from.)

Beyond that, however, Bashkirov has cultivated a whole piano-*sound* which is peculiarly his own. No

Though Bashkirov's 'ffs' are strong, they never domineer; there is no 'ffff' in his range

question of bending different composers to his own preferred tricks; rather, he clothes his composers – "reveals" would be better – in a measured radiance, lucid from bottom to top. High on the keyboard, the notes are sweetly sonorous; music in the middle range is often lent an unwritten half-staccato, for better articulation: the lower range is precise and deliberate, but deliberately under-pedalled, so as never to swallow up the middle. Though his *ffs* are strong, they never domineer; there is no *ffff* in his range.

All this is now second nature to him, but it bespeaks an intensive education and long, creative experience. It was fascinating to hear in Mozart, from whom Bashkirov drew a "sonata" simulacrum by putting together three odd pieces in matching keys, with the daringly chromatic Menuett K.355 in the middle. A long group of Schubert songs, as transcribed for piano by Liszt, had many noble passages; also a few in which there were just too many notes for Bashkirov's comfort.

Lars Vogt is incessantly thoughtful and inquiring. He searched through Beethoven's late "little" *Bagatelles* op.126, and found stirring import. He administered their abrupt, compacted mood-switches justly, with all due weight. In no.5 he was songful and wistful, adding depth and breadth as it went on, and no.6 – the last – felt like a long-considered valediction.

That was neatly placed: it contains a striking bass tremolo that echoed one in the "Appassionata" sonata here, which followed upon its heels. But I thought Vogt *too* ruminative in that main offering, like Bashkirov in the 20-year-old Brahms's grand F minor sonata: both it and the "Appassionata" require some sustained, forceful drama, and neither quite got it. Lovely moments, yes, as in Bashkirov's Andante espressivo and Vogt's suggestive, evasive finale. In both cases, though, we ought sometimes to have been forcibly dragged along, and we weren't – despite Vogt's fine, bristling codas.

Vogt's closing Brahms was the early Ballade in B, op.10 no.4. It unfolded slowly and intensely, on its way to an uncanny middle section that he rendered in dense Impressionist tones: swimming in pedal, with softly clashing discords continuing on and on. Quite memorable – which was good, since he might (who knows?) soon stop playing it at all like that.

David Murray

Acting up a storm on Prospero's magic island

THEATRE

SARAH HEMMING

The Tempest
RSC, Barbican Theatre, London EC2

In some of Shakespeare's plays one feels he ties up the ends of the plot with indecent haste. You could see *The Tempest* as recompense for that. Here, there is very little plot, and what we are seeing is the resolution of a drama that began long ago, when Prospero had his place usurped by his scheming brother. We join the story as events come to a climax and Prospero works painfully through the few hours he has dreamed of for so long. Adrian Noble's finely judged and reflective RSC production catches beautifully that feeling of time passing too quickly, and yet in slow motion. We feel how Prospero must seize the moment, and yet the great labour of doing just that.

This is in part thanks to David Calder's excellent Prospero. He, too, must undergo a sea-change and Calder takes us on his inner journey. He is tense, inscrutable, moody; embarrassed by Caliban, *unsettled by his fondness of* Ariel, unsure which way things will go. It is not until Ariel mentions clemency that he allows himself to forgive his enemies, and the relief as he makes that decision is palpable. We see, too, the release as he abjures his rough magic, literally shrugging off a huge mantle, but also the regret that accompanies his decision. Forgiveness does not necessarily bring happiness.

It is a fine central performance and one that captures the essential loneliness of Prospero and the tough wisdom he acquires that life consists of letting go. It is also the loneliness of the author: Calder's Prospero is always *slightly apart from the action, even* while he is at its centre. The possibilities of interpretation are hinted at rather than hammered home, and the play's concerns about knowledge and betrayal quietly emerge.

Anthony Ward's beautiful, dreamlike set encourages rumination. The magic isle is a circle sealed with pebbles and enveloped by billowing silk curtains in sea greys and blues. We first see Prospero over his fire, his magic cape stretching up to the sky; Robert Glenister's loam-covered Caliban has to be prised from a giant shell. The only jarring note is struck by the island's spirits, who, encased in giant blue *sacks, look like scatter cushions* with minds of their own.

The production almost gets to the heart of this great, mysterious play, but not quite; we only begin to feel the island's power towards the end. One problem is the shipwrecked courtiers. Their scenes are wooden, and slow down the production: I found it hard to believe that either Ferdinand (Evroy Deer) or his father (Colin George) was remotely grief-stricken, which undercuts the end of the play.

Other difficult characters are well caught, however. Penny Layden's Miranda is lovely – open, fresh and unaffected. Adrian Schiller and Barry Stanton bring nice comic timing to Trinculo and Stephano, and Scott Handy's Ariel is persuasively strange. His exit, suddenly uncertain now that he has finally *gained his freedom, is typical of this* thoughtful production.

INTERNATIONAL

Arts Guide

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
● Mefistofele: by Boito. György Györivanyi Rath conducts a revival staged by Peter McClintock. Samuel Ramey sings the title role; Jan 22, 25
● Roméo et Juliette: by Gounod. Conducted by John Nelson in a staging directed by Nicolas Joël. The cast stars Roberto Alagna and Angela Gheorgiu; Jan 23, 26

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-299 8820
Treasures from King Zhao Mo: King Zhao Mo's tomb, sealed in 122 BC, was accidentally discovered in 1983 by construction workers. This exhibition displays the many treasures buried with Zhao Mo, the first time they have been seen in the west; to Jan 22

HELSINKI

EXHIBITION
Museum of Contemporary Art
Tel: 358-0-173 361
Bruce Nauman: spanning the career of the American artist, b.1941, this exhibition focuses on his relationship with language, and includes sound and video installations and neon pieces; to Jan 24

LAS PALMAS CANARY ISLANDS

CONCERTS
Auditorio Alfredo Kraus
● Cleveland Orchestra: first stop on the orchestra's European tour. Christoph von Dohnányi conducts a programme of works by Beethoven and Stravinsky, with violin soloist Frank Peter Zimmerman; Jan 21
● Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Schnittke, Bartók and Schubert; Jan 22

LONDON

CONCERT
Barbican Hall
Tel: 44-171-638 8891
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Ives, Mendelssohn and Prokofiev; Jan 21

LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art
Tel: 1-213-857 6000
www.lacma.org
Van Gogh's Van Goghs: Masterpieces from the Van Gogh Museum, Amsterdam. Display of 70 paintings on loan during the period of the Dutch Museum's renovation, transferring to LA from Washington. Ranging across the artist's career, the show includes masterpieces such as Potato Eaters (1885) and Wheatfield with Crows (1890); to May 16

OPERA
L A Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Madama Butterfly: by Puccini. Conducted by Marco Guidarini and directed by Christopher Harlan. With a cast including Yoko Watanabe, Richard Leech and John Atkins; Jan 23, 26

LYON

OPERA
Opéra National de Lyon
Tel: 33-4-7200 4500
Zelmira: by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos, with a cast including Mariella Devia; Jan 24

MADRID

CONCERTS
Auditorio Nacional
Tel: 34-1-337 0100
● San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein and Mahler; Jan 23
● San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Ives, Canteloube and Prokofiev, with violin soloist Gil Shaham; Jan 24

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Kent Nagano in works by Liszt, Prokofiev and Stravinsky. With violin soloist Kyung-Wha Chung; Jan 21, 22, 24
● Symphonieorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Jan 23

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Lyonel Feininger (1871-1956): From Gelmeroda to Manhattan. First comprehensive retrospective of the German-American painter, who was forced to leave Germany during the 1930s and subsequently worked in New York. The 120 works on display include important public and private loans, and paintings by the artist's contemporaries; to Jan 24

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Lohengrin: by Wagner. Peter Schneider conducts a staging by Götz Friedrich. Cast includes Adrianne Pieczonka and Waltraud Meier; Jan 23

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● London Symphony Orchestra: conducted by Colin Davis in works by Elgar and Beethoven, with cello soloist Steven Isserlis; Jan 24
● London Symphony Orchestra: conducted by Colin Davis in works by Beethoven and Elgar; Jan 25
● New York Philharmonic: conducted by Riccardo Muti in works by Brahms, Busoni and Ravel; Jan 21, 22

DANCE
Neil Simon Theatre
Tel: 1-212-307 4100
Adventures in Motion Pictures: Swan Lake. British choreographer Matthew Bourne's all-male version of Tchaikovsky's ballet; to Jan 23

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
1999, Rendezvous: in their holdings of artworks from 1900 to 1945, the Guggenheim and the Centre Georges Pompidou are remarkably similar, with one often owning a preliminary study for a painting in the collection of the other. The closure of the Musée National d'Art Moderne for renovation has created the unique opportunity for this exhibition, which brings together related works by the same artist, or works by different artists on the same theme; to Jan 24

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Mary Cassatt: Drawings and Prints. Coinciding with a major retrospective at the Art Institute of Chicago; to Jan 24

OPERA
Metropolitan Opera
Tel: 1-212-362 6000
www.metopera.org
Werther: by Massenet. Donald Runnicles conducts a staging by Paul-Emile Deiber. Cast includes Susan Graham and Thomas Hampson; Jan 23

PARIS

CONCERT
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Neeme Järvi in works by Tchaikovsky and Franck, with violin soloist Régis Pasquier; Jan 21

TENERIFE, CANARY ISLANDS

CONCERTS
Teatro Guimerá
● Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Beethoven and Stravinsky, with violin soloist Frank Peter Zimmerman; Jan 23
● Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Schnittke, Bartók and Schubert; Jan 24

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Japan Philharmonic Symphony Orchestra: conducted by Ken-Ichiro Kobayashi in Mahler's Symphony No.7; Jan 22
● Yomiuri Nippon Symphony Orchestra: conducted by Gerd Albrecht in works by Beethoven; Jan 23

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

UK marks time

The discussion by the Bank of England of a 'neutral' interest rate might help reduce dependence on official forecasts

For some time past the British economy has faced the prospect of a hard landing. This meant something worse than the moderate slowdown foreseen by the Treasury last year, but not necessarily amounting to a major recession.

Too much importance should not be attached to whether tomorrow's preliminary estimate of the last quarter's gross domestic product shows an increase or a decrease of a few decimal points. Such variations are well within the margin of error, and the estimate itself is certain to be revised. On a broader view, UK output as whole is stagnating, although the manufacturing sector is in decline. Or to put it less emotively, the economy is marking time.

Eddie George, the governor of the Bank of England, has just said that he does not expect this check "to develop into a steep or protracted recession . . . and such an outcome is one which the MPC [monetary policy committee] will certainly seek to avoid" consistent with the inflation target. This commitment is more important than whether base rates move down again at the beginning of February or a little later.

Since the Bank decided to reduce interest rates by a quarter of a percentage point at the beginning of this month, there has been no dramatic change in the British economic outlook. Retail sales volume – which accounts for only 30 per cent of total consumer spending – has been pretty static, compared with expectations of a modest increase. Unemployment remained flat in the last quarter of 1998, contrary to widespread expectations that it would rise. Surveys of confidence are still bearish, but slightly less so than they were before.

Inflation is still on a gradually falling trend, despite the small blip shown in the December Retail Prices Index. Indeed, as Anatole Kaletsky, a commentator for The Times, has suggested, one reason why some business surveys are so much more pessimistic than consumer ones is that businessmen are reacting in pained surprise to the disappearance of the regular upward price adjustments with which they have grown up.

The downside risks to the UK outlook are of course international. They come from Latin America, Japan, the unsustainable US private sector deficit and the associated inflated level of Wall Street prices. By far the most important of these is the vulnerable US private sector. Its deficit does not have to be reversed, but merely stop growing, for US expansion to come to a halt. As Goldman Sachs remarks: if the US private sector were forced into a crisis adjustment this would represent a negative shock to the world economy "several times larger than anything we have seen from Asia or Latin America in the recent past".

But to say that the position is unsustainable does not say when it will come to an end. A wise geologist might have known that Beachy Head was liable to crumble, but he could not have said when.

Meanwhile it is of some comfort that Mr George so clearly recognises that the "urgently needed" improvement in the current account of the emerging countries has as its counterpart a sharp decline in net external demand in the industrial countries.

He added that such countries would not only have to tolerate a "deterioration" in their balance of payments but would have to take offsetting action to stimulate domestic demand if the world was to avoid still further weakening in economic activity and outright price deflation. Should there be any such prospect it would be right, he said, to contemplate further monetary relaxation in the US, the euro-zone and the UK "to keep aggregate demand in line with the supply capacity of our economies". The recent cuts in interest rates in all three regions, which took some market commentators by surprise, provide some evidence that Mr George was not speaking for the Bank of England alone.

One reason why the European Central Bank is sometimes regarded as more deflationary than it is, is its choice of language. For instance, when its governing council declared that there would be no further interest rates in the foreseeable future, it probably just meant that the ECB had done enough for the present and it could not foresee when the time would come for a change – an interpretation reinforced by the the ECB's first monthly bulletin.

As far as the UK is concerned, I am in the rare position of partially defending the Bank of England's's economic forecasts, which appear once a quarter in the Inflation Report, against those who say that the report provides few clues on future policy.

The point of a forecast is not to say literally what is going to happen. Everyone knows that the best assessment can be knocked astray by outside ("exogenous") developments such as the recent international crises. The forecast is one way of summarising existing information which would otherwise remain a confused mass of data. It would indeed be more accurate to call them projections rather than forecasts.

We can still question whether these projections are the best way of deciding policy. The internal relationships are always doubtful; and the exogenous forces are often much more important than the conventional ones that the projectors try to take into account.

The sceptics have, of course, the problem of proposing an alternative. If one distrusts the projections, one has also to throw overboard fine-tuning and hopes of steering the economy on a stable short-term growth path with inflation close to target. Instead one has to take a step backwards and be content with achieving both the growth path and the inflation target over an average of many quarters and intervene only when there is a clear and obvious danger of large departures in an inflationary or recessionary direction.

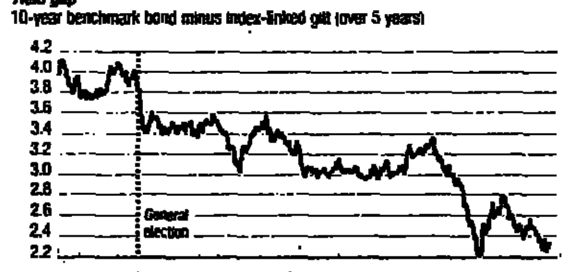
The difficulty of this course is to define a neutral stance from which such interventions should depart. The most encouraging development here has been the discussion in the Bank's MPC of the pros and cons of seeking out a neutral short-term rate of interest. This is now a little less difficult than it was during the period of high and fluctuating inflation. The Bank estimates that the real short-term rate of interest is somewhere between 2 and 4 per cent. To this should be added some estimate of inflation expectations which are now not far from the official 2½ per cent target. There are of course objectors on the MPC who believe that the concept is too uncertain to be of use. To which I would reply: a good deal less uncertain than the customary projections.

If we take the centre of the range for real interest rates we arrive at a neutral nominal short-term rate of 5¼ per cent. This is only half a percentage point below the present level and one could leave the Bank to exercise its discretion in deciding how fast to get there.

The interesting question is whether developments in the world economy will be so depressing that the Bank will need to go below this neutral 5¼ per cent to apply a positive stimulus.

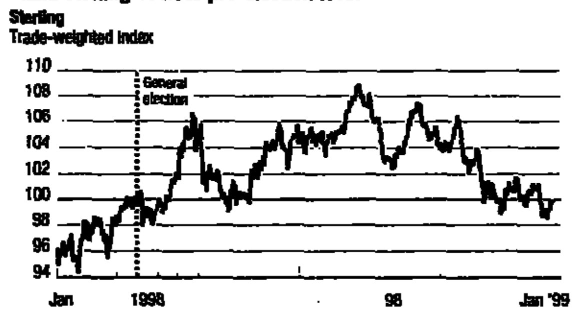
Inflation expectations on falling trend...

Yield gap
10-year benchmark bond minus index-linked gilt (over 5 years)



...and sterling back to pre-election level

Sterling
Trade-weighted index



Source: Datastream/ICV

LETTERS TO THE EDITOR

Steps to regulatory co-ordination

From Mr Peter Cooke.

Sir, I am stimulated to write by Stephany Griffiths-Jones's letter "Look to Basle for global regulator" (January 19).

As chairman of the Basle committee of banking supervisors for more than 10 years, it always seemed to me that the Bank for International Settlements, as the central bankers club, was an ideal base for work on international financial regulation (or supervision as it used to be called in gentler days). This view may have had to be modified somewhat in recent years with the trend, in which the UK is in the van, to take micro-regulation out of the central bank.

But the very forces prompting segregation of micro-regulation from macro-management by central banks argue, again as in the UK, that macro-regulation should still be undertaken with significant input from the central banking community and that the macro-international manager – the International Monetary Fund – should be spared the conflict of being the prudential regulator. IMF officials concerned with market infrastructure and regulatory matters do not, I believe, seek to be the global prudential regulator.

A step forward in improved financial sector regulatory co-ordination has been made with the recent siting of the International insurance regulatory body in Basle. A further significant step would be to persuade Iosco (the International Organisation of Securities Regulators) to relocate to Basle also.

In all of this, however, it will be important to proceed gradually. Until, if ever, there is an international basis in law for a global regulatory authority, co-operation between national authorities needs to work toward co-ordination and, hopefully, an increasing moral authority for the recommendations of an overarching regulatory standard-setting body. The impact of such a body's work, as with the original Basle Capital Accord, will depend on the degree to which the market, as well as national authorities, choose to embrace its recommendations. It is incidentally important to emphasise that the BIS as such is not a global regulator; the work is undertaken at the BIS rather than by the BIS.

In conclusion, one might observe that any organisation setting out to co-ordinate prudential regulation of financial markets has to be very careful about giving the impression that it is assuming a macro-prudential management role to control capital flows in international financial markets. There will always be limits to what regulation can be expected to achieve.

Peter Cooke,
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Chalfont St Giles,
Bucks *HP8 4EE, UK*

A click of a mouse will seal the middleman's fate

From Mr Tim S. Staermose.

Sir, Rupert Murdoch had it right (January 13) – the internet will destroy more businesses than it creates. While that may be bad for middlemen, who are the first obvious casualties of the internet-commerce revolution, it is going to be immensely beneficial to those businesses that rely heavily on them and pay through the nose for it.

Online product-sourcing, for example, is already providing huge cost savings to scores of large companies. At the click of a mouse, market research and price comparisons that used to take days can be done in minutes. Once the best price has been found, a simple e-mail allows orders to be placed direct with the manufacturer.

When an established company cuts its cost in this manner, the saving passes straight to the bottom line. That's profit.

Forget about these high-flying internet retailers that lose more money the more they sell. There are no profits on the horizon there. But for a company such as General Electric, which is already slashing tens of millions from its procurement costs by using the web, the internet is already significantly fattening its bottom line.

Tim S. Staermose,
Makati City,
Philippines

Nato: fudge and politics go down well

From Mr Alexander Weir.

Sir, Although Nato's October activation order is still "valid", I hear talk of a 96-hour deployment period for air attacks. Apart from giving thanks that the cold war is over, especially if it takes Nato so long to respond, could it be that these four days are required to get a valid UN Security Council resolution?

Fudge and politics do go well, even as we approach Nato's 50th anniversary summit in Washington this April.

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PERSONAL VIEW Gerhard Schröder

Germany's helping hand

The G8 should embrace a radical plan of debt forgiveness if the world's poorest countries are to have a fresh start

Brighter future: these children would benefit from Germany's move

On the eve of the 21st century, we are faced with the task of using the opportunities of globalisation to create sustainable growth, socially equitable and ecologically responsible development. This is vital for the economically less developed countries.

We are currently focusing on overcoming the economic, monetary and financial crises in some Asian countries, in Russia and in Brazil. Given the urgency of their problems, that is understandable. However, we must remember that even 17 years after the international debt crisis emerged in 1982, it is still the poorest countries whose high burden of debt service is the heaviest encumbrance on sustainable economic development.

Although the international community has made several attempts to make debt problems more bearable during the past few years, it is clear that without a radical debt reduction in many of the poorest countries there is no hope of bringing about a fresh start. There is also little chance of making sustainable and significant improvements in living standards.

Against this background the German government has announced an initiative on overcoming the debt problems of the poorest developing countries.

In co-operation with the World Bank and the International Monetary Fund, a new, enlarged range of instruments has already been created in the form of the debt initiative for Heavily Indebted Poor Countries (HIPC). This aims to find a lasting solution to these countries' debt problems.

The strategy is based on the approach that debt relief by donors is linked to economic recovery and reform measures by debtors. Structural and social reforms aimed, for instance, at developing primary health care and an efficient education system – as well as the necessary micro and macro-economic adjustments – are crucial elements of the initiative. Following these principles, a considerable reduction in the debt burden has already been achieved in seven countries that have so far received commitments on debt relief of about $3bn.

Our task now is to enhance this instrument in close co-operation with the World Bank and the IMF. The heads of state and government of the Group of Eight countries (G8) – at a summit due to be held in Cologne in June – should send a clear message of support for the poorest countries. With the Cologne debt initiative, the German government wants to invite its partners to lend their support.

The initiative is aimed first and foremost at intensifying and accelerating the implementation of HIPC. Our aim is to enable as many countries as possible to make the necessary adjustments and receive debt relief quickly and comprehensively.

To this end the German government is proposing the following steps:

● To speed up the debt relief process in which all countries entitled to take part can ascertain the extent and date of their debt relief by 2000. This shall apply to those counties that observe the principles of the welfare state and the rule of law and are carrying out reform programmes in collaboration with the IMF and the World Bank. Thus we can foster conditions for sustainable development geared to fighting poverty and inequality.

Every debt relief initiative must be embedded in a comprehensive strategy for conflict prevention. The summit will consider this

The existing framework in determining the need for relief should, of course, be used to its fullest extent. For some counties confronted with particularly difficult problems, however, this might not be enough. In exceptional cases, therefore, the Paris Club should consider total cancellation of commercial credits and loans.

● Using multilaterally co-ordinated procedures, we propose binding and complete cancellation of debts from development assistance in the Paris Club for countries that qualify under HIPC. The debtor countries should use funds released in this way for projects which foster sustainable development geared to combat poverty and inequality, and which take account of basic legal and social principles.

● In order to safeguard the share of multilateral creditors in the HIPC initiative, the German government will make a contribution towards the World Bank's HIPC Trust in 1999. The IMF should also be enabled to make its contribution towards the HIPC without compromising its support to the poorest countries. The German government is therefore prepared to make available funds to help continue the Fund's so-called "enhanced structural adjustment facility" (through which the IMF assists its poorest members).

However, all attempts to bring about a sustainable improvement in the living standards of people in the poorest countries through debt relief or financial assistance will fail if they come up against an unstable political environment marked by armed conflicts. Every debt relief initiative must therefore be embedded in a comprehensive strategy for conflict prevention. At my request, the G8 summit in Cologne is to consider this issue in depth.

Elements of a crisis prevention strategy could include early international co-ordination talks based on early warnings. They could also include support for developing countries, for countries in transition and for regional organisations in their own efforts to improve early recognition of (and reaction to) crises and disasters.

In view of the high cost and human suffering caused by armed conflicts in the poorest countries, funds made available for a successful strategy aimed at crisis prevention represent an investment that will create a high stability dividend.

The author is chancellor of Germany

FINANCIAL TIMES

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Thursday January 21 1999

Mr Greenspan's warning

Alan Greenspan's testimony before the House Ways and Means committee, as always, was painfully even-handed. But still the Federal Reserve chairman's warning was clear. Equities are not risk-free. Anyone who thinks they are, because the Federal Reserve will always bail the market out, is wrong. This is a welcome warning. The danger is that it will not be heard.

A slowdown in the international economy has undermined manufacturing and exports in the US. The US expansion has been sustained by a circle of rising consumer spending fuelled by stock market gains. This is inherently unstable.

Mr Greenspan is careful not to sound too gloomy. US economic performance continues to impress. The rise in the stock market in part reflects low inflation, and so low inflation related risk premia, and productivity gains from technical progress. But reading between the lines, he appears deeply concerned.

Consumer spending has been supported by rising household wealth. Since 1992, the value of household assets has risen by 50 per cent. Over the same period, household savings have fallen from 6 per cent of income to close to zero. The wealth effect of the rising stock market has been concentrated among the high income groups that hold most of the assets. However, if equities stop rising, the growth of spending will slow. A decline in equity values could lead to a considerable fall in consumer demand as households rebuild savings.

Mr Greenspan warns that corporate profits have sagged in recent quarters. This underlines the "unusual nature" of the rebound in equities since the summer correction, and suggests that the recent performance of equity markets "will have difficulty in being sustained". The level of equities suggests expectations of higher corporate earnings in the face of an international slowdown. It also suggests that investors are ignoring risk, such as the growing threat of protectionism in the US which has implications for profit expectations and equity valuations.

Mr Greenspan made very clear that the Federal Reserve does not target asset prices. Interest rate cuts in the autumn were prompted by strains in US debt markets that threatened investment and consumption. They were not a reaction to the slump in share prices over the summer. "We were not attempting to prop up equity prices, nor did we plan to continue to ease rates until equity prices recovered."

But for all his warnings, the Fed cannot avoid cutting rates if an equity slump undermines prospects for the economy. Mr Greenspan has warned about asset price inflation before. The further the stock market rises, the greater is the prospect that when equities tumble, the Fed will be forced to act.

Nuclear haste

Under single-minded pressure from the Greens, the German government has agreed to phase out nuclear power as a source of energy. Only the time-scale has yet to be determined, and it could be long drawn out.

But the government has also decided to stop reprocessing nuclear waste from 2000. That is a political decision likely to have two consequences. It will increase the pressure on the industry to close down its nuclear power stations sooner rather than later, because the power generators say they will run out of storage space for spent fuel elements. And it is likely to be a source of conflict with France and Britain, both of which have substantial contracts to reprocess spent German nuclear fuel elements.

Jürgen Trittin, Germany's Green environment minister, may well have to reconsider his tactics. He claims that the decision is a direct result of the last election in Germany, which brought his party to power. It therefore amounts to "an act of God", for which there can be no compensation. That is absurd.

While the German government is entitled to decide not to generate its own nuclear power, it cannot simply ignore the consequences. Its previous decisions not to allow reprocessing of spent fuel elements in its own back yard meant that it had to sign the contracts with British Nuclear Fuels and France's Cogema to do the job instead. It would be quite wrong now for those countries to be penalised before the phasing out has begun in Germany.

Mr Trittin accepts that the spent fuel awaiting reprocessing in Britain and France will have to be brought back for long-term storage in his own country. This involves very large quantities of radioactive material, for which there is no agreed destination back in Germany. And the transportation could be met with massive popular demonstrations, not least from Mr Trittin's own supporters.

The nuclear industry cannot ignore the symbolic importance of the German government's decision. Public opinion is not as hostile in other European countries, but this could still be a big reverse for nuclear power. But loss of cheap nuclear energy could in the long run damage the competitiveness of German industry.

An extended and gradual phase-out needs to be negotiated, allowing time for proper disposal sites to be found in Germany, for industry to adapt, and for the contracts in the UK and France to be properly wound down.

Mr Trittin must recognise that that if he acts too hastily now, he may be forced to repent at leisure.

After the Lords

Like the Queen of England, the House of Lords has more power than it cares to use. In theory, at least, the upper chamber is equal to the Commons, except for the constraint of the Parliamentary Acts which prevent it from blocking money bills and other public bills begun in the Commons.

This historic legacy creates a dilemma for the government as it set out to reform the Lords and make it more "legitimate". When the hereditary peers are swept aside, their elected or appointed successors may want to flex the legislative muscles of ancient tradition.

In recent decades, these powers have been limited voluntarily. Recognising that they have no democratic mandate, their lordships have usually been content to revise and advise. And as the government acknowledged in its white paper on Lords reform yesterday, this typically British compromise has worked tolerably well in practice.

However, the abolition of the voting rights of hereditary peers – first proposed in 1917 – is clearly overdue. In its plans to achieve this, the government has made the best of a rushed job. Its proposal to maintain for the time being a large block of non-party "crossbench" life peers is welcome; so is the transfer of the power of appointing crossbenchers from the prime minister to an independent commission.

For the longer term, a Royal Commission has been given reasonably wide terms of reference for considering the role and membership of the upper house. This includes the need to consider representation from the regions and from Wales and Scotland.

The government's evident preference for a mixed chamber of elected and appointed "lords" seems a sensible starting point.

But the bigger question of the relative powers of the two houses of parliament remains unresolved. The government is right that the Commons must remain superior. But that leaves open a wide range of possibilities for the upper chamber's powers to revise, delay, obstruct or to propose legislation.

The government's inclination seems to be to leave things pretty much as they are – that is, with the government in the commons decisively in charge.

But a more legitimate and more representative upper house could have a stronger role in curbing the excesses of the "elective dictatorship" that British governments can too easily become. Although it runs against British tradition to be explicit about such relationships, some definition, including, perhaps, an erosion of the powers of the Commons must now be attempted. The commission must not shirk the task

Meanwhile, my policy is ...

Gerard Baker argues that Bill Clinton is taking his biggest step yet in defining a new role for government

It had been billed as a determined effort to change the subject. While the Congress delved deeper into what most Americans regard as the trivia of the Monica Lewinsky drama, President Bill Clinton would use his annual State of the Union address to demonstrate his eagerness to "get on with the nation's business". On prime-time television, before an artifically respectful audience in the chamber of the House of Representatives, the president would ignore the impeachment drama unfolding around him and outline his proposals for the final two years of his administration.

In the event Tuesday night's proceedings were about much more than simply diverting the public's gaze. By unveiling the boldest and potentially most significant policy initiative of his six years in office, Mr Clinton made a new bid to secure his place in history as something other than the impeached president.

His proposal to spend several trillion tax dollars over the next 15 years to shore up the finances of the country's most important public insurance programme – Social Security, the state pension scheme – was his most dramatic attempt yet to reshape the American political debate.

By seeking to rescue, rather than dismantle the basic principle of universal state provision of the retirement pension, he set firm limits on the retrenchment of the public sector that has been the guiding light for public policy in the US and elsewhere in the last 20 years. Republicans seem certain to oppose much of his plan, paving the way for a fierce political struggle over something other than Monica.

The plan itself calls for an injection of public funds into the Social Security system of at least $3,000bn between now and 2014. On projections the system will start to run into serious financial difficulties in the second decade of the next century, as an ageing population places more demands on the "pay-as-you-go" system (see chart).

To avert a financial crisis, at least for the next 50 years, Mr Clinton has proposed using almost three-quarters of the forecast general federal budget surpluses in the next 15 years to bolster Social Security. Roughly $2,700bn would be ploughed into the Social Security trust fund. A smaller amount – about $400bn – would be used to subsidise personal retirement accounts that individuals would be encouraged to open to ease the burden on the public finances. White House officials acknowledged the vastness of the sums involved. "Given the scope and the size of the challenge facing Social Security, it required something truly substantial," said one of the President's closest advisers.

Republicans were mostly unimpressed. They favour – and had expected – a plan to put a portion of the budget surplus into Social Security. But many of them wanted more of the excess funds to go towards encouraging private investment; and they also wanted to give most of the rest of the surplus back to the public in the form of tax cuts.

But Mr Clinton's scheme not only allocates far more to Social Security than Republicans would like. Almost as significantly his plan calls for the remainder of the expected surpluses in the next 15 years – about $1,000bn – not to be given back in tax cuts, but to be used for a variety of other spending programmes including Medicare, the other major financially strapped scheme of health insurance for the elderly, education and child care, as well as defence.

Republicans hope that in backing such a large expansion of public spending the White House may have miscalculated. After years of fiscal restraint, they argue, the latest proposal shows Mr Clinton in his true colours: as a proponent of "big government". Some say privately that it represents "pay-back" for the liberal wing of the Democratic Party, and the labour movement which has so publicly backed Mr Clinton throughout his impeachment travails. Labour has fiercely opposed privatisation of Social Security, and the need for Al Gore, the vice president, to strengthen his ties with unions in time for his run at the presidency next year, gave Mr Clinton, his critics argue, no choice.

Some Republicans see the latest move as a replay of Mr Clinton's disastrous 1994 initiative to expand health insurance coverage. That plan failed largely because it was seen as an unwarranted expansion of the role of the state. Its failure led directly to the "Republican Revolution" of 1994, when the party gained a majority in both houses of congress for the first time in a generation, and began legislating a programme based on fiercely anti-government conservatism.

But Republicans have underestimated Mr Clinton in the past. Might they do so again this time?

The White House has been careful to leaven its proposals with some significant concessions to those who favour privatisation. Officials say the plan to subsidise personal retirement accounts could, if they prove popular, be a way of reducing dependence on the state pension. In addition a quarter of the total funds to be injected directly into Social Security by the federal government will go into the stock market rather than into Treasury bonds, another nod in the direction of the market.

"What the President is proposing is putting the money generated by the surpluses back into the pocket of Americans," said one official. "Instead of tax cuts we're doing it through Social Security."

And there is every chance Mr Clinton's proposals could prove popular – a big difference from his ill-starred health care plan five years ago.

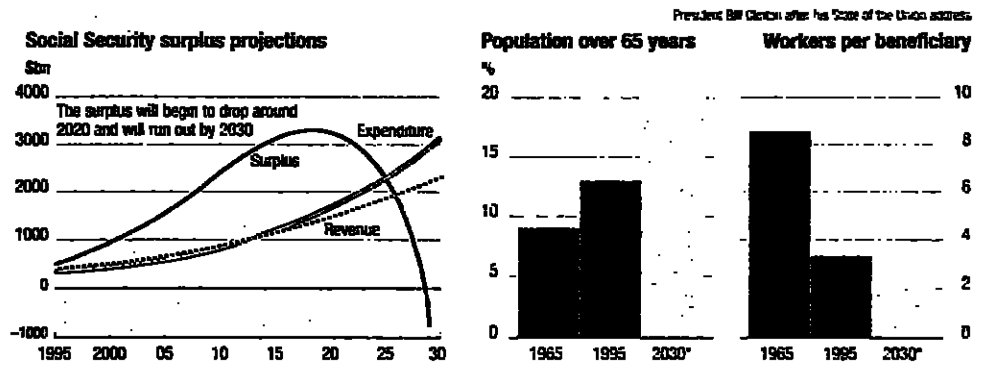
Throughout the last year, the White House has been conducting an extended focus-group exercise, canvassing the views of the public about Social Security. The message seems to be that they like it and want to see it retained, perhaps with a small degree of private provision.

Most important, they see it as part of the federal government they can trust, a practical, effective programme, they believe that government does well.

This is the key to Mr Clinton's plan, and indeed to his broader quest for a legacy beyond impeachment. Since the debacle over health care, the President has moved in step with the Republican-guided spirit of the times. In many of the big issues – welfare reform, the downsizing of the federal government, the unwinding of regulation – he has proved himself an enthusiastic supporter of limited government. But along the way, some of his major political successes have come from staking out that limited role and strengthening it. He has implemented a host of small scale but important measures aimed at, for example, improving the functioning of Medicare, widening access to education, extending the availability of child care, and strengthening the role of anti-trust authorities, all measures the public seems to like.

With Social Security he is taking the largest step yet in defining the proper territory of government. If he succeeds in getting his plan through the congress – no easy task given the Republican majority – he has a chance of being remembered for something less tawdry than an illicit affair, a cover-up and a brush with the ultimate humiliation a President can suffer.

President Bill Clinton after his State of the Union address



Sources: 1995 & 1998 annual reports of the Social Security Trustees; OECD

Back on the fast track

Clinton's renewed campaign to free world trade is to be welcomed, but he faces a formidable task, says **Guy de Jonquières**

Bill Clinton's call for a new round of negotiations to free world trade sends a positive signal to those, in the US and abroad, who have long wanted Washington to reaffirm decisively its commitment to multilateralism and open markets. The question now is how successfully the US president can rally domestic political support for that goal.

During his first term, Mr Clinton put trade policy at the centre of his priorities. As well as lobbying energetically for ratification of the Uruguay Round and the North American Free Trade Agreement, he backed grand liberalisation initiatives in the Americas and the Pacific Rim.

But Mr Clinton's enthusiasm for such projects, and US popular support for trade liberalisation generally, have since dwindled. His ambitions suffered a humiliating setback in late 1997, when he failed to persuade Congress to renew the "fast track" authority he needs to negotiate trade deals.

Global economic fragility is the main reason trade is back on his agenda. Recovery depends on US readiness to import more from troubled emerging economies. But some US industries, notably steel, complain they are already paying the price in ruinously cheap competition from Asia and elsewhere.

So far, Mr Clinton has stood firm against demands for trade restrictions. But a continuing rise in the US trade deficit and slower economic growth could renew protectionist pressures. Resisting them would be less difficult politically if the US were fully engaged in a new push to liberalise global trade, which promised to open up foreign markets for its exporters.

Mr Clinton has another incentive, too. At his invitation, the World Trade Organisation will hold a ministerial meeting in the US at the end of this year, at which it aims to set the multilateral policy agenda for the early part of the next century.

The WTO is committed to negotiate on agriculture and services. Led by Sir Leon Brittan, Europe's trade commissioner, some WTO members want these talks expanded into a full-blown trade round, covering areas such as industrial tariffs, competition policy and investment.

Until recently, the US reacted coolly. But Mr Clinton's advisers have begun to realise that, as host of the WTO meeting, the US risks political embarrassment unless it is ready to show leadership by advancing constructive initiatives of its own.

But whatever proposals the US makes, realising them – and completing a future trade round – will ultimately depend on winning renewed fast-track authority. This is regarded as essential to clinching trade deals, because it obliges Congress to vote on them without amendment.

Mr Clinton has said he will seek fast track again. But his task looks formidable. Many Democrats say a new trade bill must include provisions to uphold labour and environmental standards, while Republicans want tighter control over the President's negotiating freedom. Legislation which incorporated either demand could be anathema to US trade partners.

A still worse outcome would be for the president to expend much political capital to win fast track – and again not get it.

For these reasons, some observers think Mr Clinton would be wise to leave renewal of fast track to his successor. But whatever he decides should soon be known. With a presidential campaign looming, he will have to submit a new proposal to Congress by spring at the latest.

OBSERVER

Going off–piste

It may just be a clever bit of bargaining, but there's a threat afoot to move the annual gathering of great business minds, known as the World Economic Forum, away from the ski slopes of Davos.

Organisers are muttering that the attractive Swiss location is simply no longer up to providing the quality of accommodation demanded by some of the world's top political and business leaders and that the whole circus just might be moved somewhere else. The intention is to keep the event – the next one is at the end of this month – small enough to retain its "cosy" atmosphere, though obvious alternatives such as Lucerne and Geneva seem to have been ruled out.

The problem may be that the hoteliers of Davos can't provide enough suites for the delegates and their hangers on and that the conference doesn't run for a full week – the usual booking period for rooms. The result is that tariffs get loaded to make up for empty days and the whole affair has been somewhat costly.

Klaus Schwab, organiser of the Davos think-in, says a study is under way to consider alternatives. The bash can stay at Davos, he emphasises, if the locals come up with the sort of package that encourages the Forum to stay. But they've got only two or three years to do it. They'd better get their skis on.

Iron lion lady

One-time British prime minister Margaret Thatcher was never averse to bagging the odd cabinet minister. But her enthusiasm for more traditional big game has until now gone largely unrecorded.

This week's publication of the hard-going memoirs of former South African president FW de Klerk change all that. De Klerk tells how the pair passed a weekend together at the Mala-Mala game reserve in eastern Transvaal with the then British ambassador Sir Robin Renwick and his wife.

Thatcher, no longer prime minister, spotted several African wildlife specimens but insisted on seeing the King of the Jungle himself. De Klerk recalls her saying "Mr Game Warden, I came to Africa to see a lion. Please show me one."

The former premier wasn't disappointed, though maybe just a little taken aback. Just towards sunset the party stumbled upon a couple of lions, engaged in the sort of things lions do when they think they're alone and it's getting dark. Summoning all her diplomatic skills, Lady Renwick politely inquired whether the party had noticed "the love in the lioness's eyes". The political beast with "the eyes of Caligula", to quote President François Mitterrand, made no comment and moved stealthily on.

Double scotch

It is the end of an era for the men who make Glenmorangie, Scotland's number one malt whisky, and for the company that bears the same name. David Macdonald, grandson of its founder, retires as a director at the annual meeting in June on reaching 65. He'll be replaced by solicitor Lesley Knox, deputy governor of merchant bank British Linen Bank – leaving the board without a Macdonald for the first time.

It's all part of the modernisation of the company which was known as Macdonald Martin until it adopted the name of its most famous dram only three years ago. Under Geoffrey Maddrell, who became chairman after Macdonald stepped down in 1994, Glenmorangie has put some oomph into its business, although that's not reflected in the market rating of what's now the last quoted single malt Scotch distiller.

The main culprit is a two-tier share structure: 4m voting B shares – just over 40 per cent in Macdonald hands – trade at a significant premium to the 14m non-voting A shares.

The departure of the last Macdonald from the board could be the cue for enfranchising all the shareholders. As a former fund manager with investment house Kleinwort Benson, Knox would no doubt be able to advise.

New plumage

So that's where he's heading. Sir David Gore-Booth, the undiplomatic British diplomat who's been back in the headlines after bowing out of a long and distinguished career by breaking all the rules and publicly criticising his political masters, will be joining HSBC.

Gore-Booth has been enlisted by the bank as a sort of roving emissary. He'll pay special attention to the Middle East, where he served as ambassador to Saudi Arabia in the early 90s and managed to get himself caught up in a scandal involving shipments of arms to Iraq.

Now, at 55, he'll be revisiting his old stamping ground trying to drum up business for his new bosses. No doubt he'll steer clear of Baghdad.

Posh nosh

Pity the poor American looking for a square meal in Budapest. Uncle Sam's citizens have been told not to eat in three new restaurants there because they're owned by Corinthia - a group with Libyan connections. US sanctions against Libya are in force and the penalty for violating them is $11,000. The cuisine would have to be worth it.

The Financial Times

100 years ago

The Yankee Boom
"Every day its sensation" seems to be the motto of those who are working the big boom in the Yankee market. The latest rumour is to the effect that the New York Central is about to be amalgamated with the Chicago and North Western and the Union Pacific on the model of the Lake Shore and New York Central combination. This means, we are told, a 10 per cent dividend on New York Centrals. Whether the increase dividend is to be provided by the Union Pacific or Chicago and North Western is open to doubt.

50 years ago

Defeating Tsetse Fly
Solution of the tsetse fly problem in British Africa would be ensured by a combination of various methods, said Mr. D.R. Rees-Williams, Parliamentary Under-Secretary for the Colonies. He told a meeting at the Colonial Centre in Cardiff that the methods were the use of Antrycide, selective clearing and aircraft spraying. These must be accompanied or followed by provision of water supplies, crops and cattle, and the making of communications.

FINANCIAL TIMES
THURSDAY JANUARY 21 1999

THE LEX COLUMN

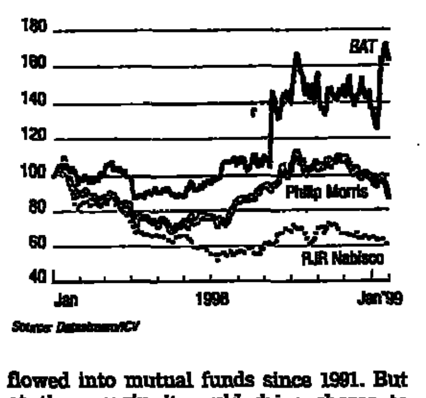
Smoke but no fire

President Bill Clinton's threat to try to recover the federal government's costs of treating smokers has got some investors puffing nervously. The reaction in US tobacco companies' share prices suggested that any hope that tobacco litigation was settled was a pipe dream. Shareholders can probably breathe easy, however. Asking Congress to resist the tobacco lobby, safeguard the health of the nation's children and protect tobacco farmers is easy politics. Following through a federal litigation plan is not so simple.

The states with which the tobacco companies reached a $206bn settlement last year argued that tobacco companies had concealed the dangers of smoking from them. It will be hard for the federal government to use the same argument, as it commissioned the report into those health risks 35 years ago. Additionally, the tobacco companies that coughed up rather than face a multitude of state lawsuits are far more likely to stand firm against a single litigant in the shape of the federal government.

If this was a negotiating ploy to facilitate tax increases on tobacco, there would still be risks to the companies. Oddly, Mr Clinton made no mention of the rumoured duty increases. A Republican-dominated Congress is unlikely to wave through tax increases, though, especially as the impact of previous price rises has not yet been seen. Industry consolidation is making big tobacco bigger, and more determined to fight such threats. The companies have been wrong about litigation before, but this latest threat looks like a smokescreen.

Tobacco companies
Share prices relative to the FT/S&P World index ($ terms)



Source: Datastream/ICV

US equities

As a true Baby Boomer, President Bill Clinton believes in stocks – so much so that he wants to invest $700bn of the government's projected budget surplus in equities to shore up Social Security. Mr Clinton's starting point is correct; the US state pension system has a funding problem and its historic returns from US Treasuries, at 2-2½ per cent a year since 1937, have been dismal. But the President's proposal still raises some tricky issues.

First, it would further fuel the bull market. At $700bn over 15 years, or $4bn a month, government investment would be below the $11bn-a-month average that has flowed into mutual funds since 1991. But at the margin it could drive shares to even more unsustainable levels. Second, and related, equities carry real risks. If there was a crash, taxpayers might have to step in to fund any shortfall.

The third worry is governance. Should the government own and potentially be able to influence private sector companies? It would invest through outside managers and probably in a passive index fund. But Alan Greenspan argues that political meddling would be unavoidable. The Federal Reserve chairman also raises a more fundamental point. US companies have access to all the capital they can profitably use. Equity investment by the government would either crowd out investment by private shareholders or drive down returns on capital.

European aerospace

Has British Aerospace really thrown a spanner into the works of European defence restructuring by acquiring Marconi? A quick look at the maths suggests it has. The starting point is the new enlarged BAe's £14bn market capitalisation. That is much bigger than the £4bn market value of Thomson-CSF, the French electronics group rebuffed by Marconi. DaimlerChrysler Aerospace (Dasa), the German aerospace group jilted by BAe, would also be worth around £4bn as a standalone entity. The final piece in the jigsaw puzzle is Matra/Aerospatiale/Dassault. This French aerospace group should again be worth £4bn when it is finally put together. Add all that together and there is £26bn of value, of which 54 per cent is accounted for by New BAe. To complete the picture, synergies have to be added. The extra value creation from scrunching all these companies together might be another £8bn. Expect a battle royal over who gets the biggest slice. A reasonable guesstimate might be that New BAe captures £3bn and a further £3bn is split between the two French companies, leaving £2bn for Dasa. Recrunch the numbers and BAe now ends up with 50 per cent of the total £34bn pot, 18 per cent goes to Dasa and 32 per cent is split between the French. That is the financial logic. Nifty diplomacy will be needed to persuade the French and Germans of the political logic of allowing the Brits to own half.

French banking

First it was Spain. Now, is it France's turn for a dose of banking consolidation? The latest grist to the French rumour mill is the planned sale of a near 8 per cent stake in CCF. It is a tantalising target, with a double-digit return on equity, niche activities and an ample tier one capital ratio. No wonder its shares have surged to nearly twice book value. But this stake sale alone will not speed up the restructuring of French banking.

First, CCF may keep its independence through a combination of a high asking price and the difficulty of cutting costs sufficiently to justify it. Most French banks seem to be waiting for a wave of retirements to kick in from 2002 to reduce staff. Second, any bid for control might well come from a foreign bank eager to break into France. ING, for instance, already has a 5 per cent stake in CCF. But while cross-border interest might drive up the price, such a deal would dodge the branch closures and job cuts embraced in Spain by Santander/BCH.

What a CCF takeover by a foreign bank would do is to underscore euro-zone competition. This is rattling for France's quoted investment banks. The obvious route to consolidation – Crédit Lyonnais' privatisation – has been structured, irritatingly, to make it immune to immediate takeover. This puts the onus on Paribas, Société Générale and Banque Nationale de Paris to consider combinations that will meet the euro-zone challenge.

Besieged Bank of Japan asks McKinsey for help

By Gillian Tett in Tokyo

Japan's central bank, besieged by criticism at home, has broken with tradition and appointed a foreign management consultant to help it improve efficiency.

The decision to bring in McKinsey of the US to shake up the Bank of Japan's bureaucracy overturns the institution's reputation as one of the world's least accessible central banks.

Analysts think the timing of yesterday's announcement was deliberate. The Bank is trying to bully the private-sector banks it supervises to improve their credibility with foreign investors by restructuring.

"If the Bank can show that it is listening to advice from foreigners, then it will have a powerful impact," Robert Feldman, economist at Morgan Stanley, the US investment bank, said yesterday. "This is one area where the Bank can play a real leadership role."

But the Bank is also scrambling to defend its own independence, against a rising tide of criticism.

The Japanese media has recently alleged that the Bank has granted excessive fringe benefits to its employees.

The Japanese tax office has also probed the Bank for the first time in three decades. And though the Bank vehemently denies any wrongdoing, some officials suspect that these attacks reflect a growing political tussle over economic policy.

Some politicians are pressing the Bank to increase its purchases of Japanese government bonds. The Ministry of Finance has asked the Bank to provide large loans to fund banking reform.

However, the Bank has refused both requests, on the grounds that agreeing to them would undermine its independence.

The Ministry of Finance is also concerned that a big increase in the issuance of Japanese government bonds – required to fund a stimulus package – could force up long-term interest rates. This, in turn, could hold back economic growth.

The McKinsey report is unlikely to deal with controversial areas such as monetary policy. Instead, Takeshi Nakashima, chief manager of the Bank's budget and management office, says that the consultants will "focus mainly on the operations department, currency department, administration department and information systems department."

"In those sections productivity will be easy to measure and so it is easier to start with them," he explained. He said McKinsey was selected from a shortlist of six firms.

"We did not intend to exclude Japanese consultants, but we looked for a firm with lots of overseas experience."

Masuhisa Kobayashi, analyst at Merrill Lynch, the US investment bank, said he thought the Bank was now committed to wider reform that would lead to a radical reorganisation of its branch network, and measures to improve its balance sheet.

Additional reporting by Mitsuko Matsutani

Japanese carmakers report falls, Page 8
Banking shake-up, Page 14

Pressure on Milosevic grows as Nato warships move closer

By Guy Dinmore in Belgrade

Western governments yesterday ordered Nato warships to move closer to Yugoslavia and told the US head of the international monitoring mission in Kosovo to ignore Belgrade's expulsion order, increasing the pressure on President Slobodan Milosevic.

Nato ambassadors meeting in Brussels ordered the USS Enterprise battle group into the Adriatic and other warships to the Italian port of Brindisi, as a "precautionary measure". The alliance also cut its readiness period for carrying out air strikes from 96 to 48 hours.

US General Wesley Clark, Nato's supreme commander, said that in seven hours of talks in Belgrade on Tuesday Mr Milosevic had been "very stubborn and obdurate". Nato generals demanded he comply fully with the commitments he made last October when Nato forces were poised to strike.

Diplomats admitted, however, that Mr Milosevic was cleverly exploiting divisions within the international community. They said Nato air strikes would be a last resort should the conflict with ethnic Albanian separatists in Kosovo result in further heavy civilian casualties or threaten a wider regional conflict.

Nato's next move could depend on whether Mr Milosevic decides to carry out his government's decision to expel William Walker, the head of the Organisation for Security and Cooperation in Europe (OSCE) observer mission in Kosovo.

Mr Walker has been ordered by Belgrade to leave Yugoslavia by this evening after accusing Serbian police of carrying out the massacre of 45 ethnic Albanians in the village of Racak last Friday.

Serbia claims they were killed in fighting and that Mr Walker conspired with rebels of the ethnic Albanian majority to fabricate a massacre. Knut Vollebaek, the Norwegian foreign minister who is the current chairman of the OSCE, said he had advised Mr Walker to remain in Yugoslavia.

The OSCE said member states were absolutely united in stopping Mr Milosevic from dictating who headed the Kosovo mission.

"I am convinced that Milosevic will allow him to stay. It would be an outrageous provocation, which I do not expect from him, if he threw him out forcefully," Mr Vollebaek said at OSCE headquarters in Vienna. Mr Vollebaek added that he hoped to visit Belgrade soon.

Government security forces yesterday halted their offensive against separatist rebels of the Kosovo Liberation Army (KLA) near Racak but Mr Milosevic warned after meeting Alexander Avdeyev, a Russian envoy, that police would continue in their attempts to "eliminate terrorist activities".

David Wighton in London adds: Tony Blair, the British prime minister, yesterday said Britain would support the use of ground troops in Kosovo as a last resort.

Mr Blair told the British parliament: "Whatever the difficulties, the international community cannot walk away from Kosovo and we are ready to take whatever action is necessary."

CONTENTS

Brazilian finance minister Pedro Malan, above, said yesterday the government would not need to restructure its large domestic debt after last week's devaluation of the Real. Report and analysis, Page 5

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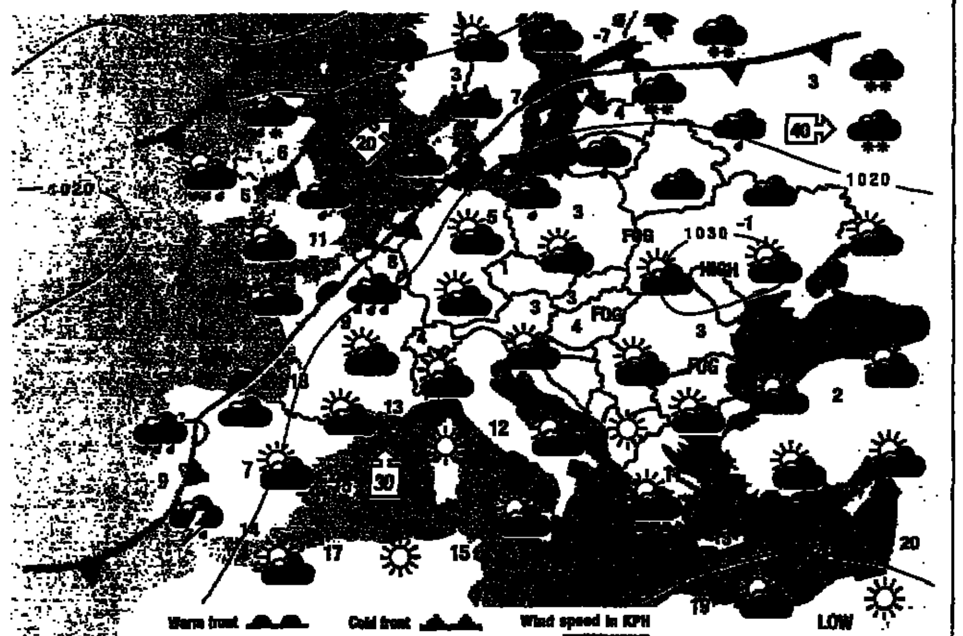
FT WEATHER GUIDE

Europe today

Southern Scandinavia and the Baltic states will be mild enough for rain but the north will have snow showers. Snow will turn mostly to rain over Russia. Central and eastern areas will be mostly fine after a cold, misty start but patches of fog could linger in an area from northern Italy eastwards towards the Black Sea. Much of the Mediterranean will be sunny but there will be thundery showers around Crete and southern Greece, and thundery downpours in the western Iberian Peninsula.

Five-day forecast

The north-west will be colder and drier for a day or two but rain will return. Northern Scandinavia will be wintry with more rain in the south. Much of the continent will be settled but overnight fog might linger. Showers in the eastern Mediterranean will clear but there will be rain over Spain later.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Fair	26
Accra	Fair	32
Algiers	Sun	17
Amsterdam	Rain	8
Athens	Cloudy	11
Atlanta	Cloudy	18
B. Aires	Fair	27
B.ham	Fair	6
Bangkok	Fair	34
Barcelona	Fair	13
Beijing	Sun	3
Belfast	Shower	6
Belgrade	fog	6
Berlin	Fair	5
Bermuda	Shower	21
Bogota	Fair	19
Bombay	Sun	33
Brussels	Shower	8
Budapest	Fair	3
C.hagen	Rain	6
Cairo	Sun	21
Caracas	Fair	30
Cardiff	Fair	9
Casablanca	Shower	15
Chicago	Cloudy	4
Cologne	Fair	11
Dakar	Sun	23
Dallas	Fair	22
Delhi	Sun	21
Dubai	Fair	24
Dublin	Shower	5
Dubrovnik	Sun	11
Edinburgh	Shower	6
Faro	Rain	14
Frankfurt	Sun	8
Geneva	Fair	4
Gibraltar	Shower	14
Glasgow	Shower	6
Hamburg	Fair	8
Helsinki	Drzl	4
Hong Kong	Cloudy	19
Honolulu	Fair	27
Istanbul	Fair	8
Jakarta	Thunder	30
Jersey	Shower	11
Johannesburg	Fair	27
Karachi	Sun	28
Kuwait	Sun	17
L. Angeles	Fair	19
Las Palmas	Fair	20
Lima	Fair	25
Lisbon	Rain	9
London	Cloudy	11
Lux.bourg	Rain	7
Lyon	Cloudy	10
Madeira	Fair	17
Madrid	Rain	7
Majorca	Fair	15
Malta	Fair	14
Manchester	Fair	8
Manila	Fair	29
Melbourne	Fair	26
Mexico City	Sun	22
Miami	Fair	26
Milan	Fair	8
Montreal	Fair	1
Moscow	Cloudy	3
Munich	Fair	6
Nairobi	Fair	29
Naples	Sun	14
Nassau	Fair	26
New York	Fair	10
Nice	Sun	13
Nicosia	Fair	17
Oslo	Fair	3
Paris	Shower	9
Perth	Sun	30
Prague	Fair	1
Rangoon	Fair	34
Reykjavik	Fair	-2
Rio	Fair	31
Rome	Sun	12
S. Frsco	Rain	16
Seoul	Sun	2
Singapore	Thunder	30
Stockholm	Cloudy	7
Strasbourg	Fair	8
Sydney	Shower	23
Tangier	Shower	13
Tel Aviv	Sun	20
Tokyo	Fair	8
Toronto	Fair	7
Vancouver	Rain	8
Venice	Fair	11
Vienna	Fair	3
Warsaw	Fair	3
Washington	Cloudy	13
Wellington	Fair	19
Winnipeg	Snow	-2
Zurich	Fair	6

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INSIDE

COMPANIES IN THIS ISSUE

MARKET STATISTICS

GM sees record $1.8bn profit

Carmaker rebuilds cash resources after strike

By Nikki Tait in Chicago

General Motors yesterday posted a record fourth-quarter profit of $1.8bn, helped by strong results from its US automotive operations.

This result compensates for last summer's two-month strike, which virtually halted the car and truck maker's North American production.

The group said it had rebuilt its cash resources to more than $13bn – having seen these run down during the strike. As a result, GM will restart its share repurchase scheme and proceed with a preference share redemption programme.

But the cost of the summer stoppage still told. GM made a profit of $3bn in 1998, down from $6.3bn previously.

Its US market share also fell back to 29.1 per cent in the final quarter, below the 30 per cent figure which management wishes to exceed.

The fourth-quarter profits were higher than the $1.6bn in the final three months of 1997, and ahead of market forecasts. The figure included a special charge of $420m.

Earnings per share in the final three months totalled $3.28 before one-off charges, compared to a consensus forecast of about $2.65. GM shares surged yesterday by $3¾ to $91¾. GM's North American automotive operations fuelled the fourth-quarter surge.

Profits reached $1.66bn, up from $650m a year ago, with the net profit margin in the final quarter reaching 6 per cent, the best in recent history.

Retail sales discounts were slightly up year-on-year, at around $1,161 per vehicle, although down from third quarter levels.

Michael Losh, finance director, said he expected the figure to "go up somewhat" early this year, but added that GM plans to switch its published calculations to average net price per vehicle. This number rose by 1.3 per cent year-on-year in the fourth quarter.

Europe produced a much better result, with profits of $146m in the fourth quarter compared with $31m a year ago.

GM's market share rose from 9.4 to 9.9 per cent, helped by sales of the new Astra. Mr Losh said GM believed it was "starting to see a turnround" in European markets.

By contrast, GM's Latin America/Africa/Middle East automotive business posted a $161m loss in the final three months, compared with a $192m profit a year earlier, while its Asia-Pacific operations made a $116m deficit compared with last time's $27m loss.

The group overall took $420m of special charges in the final quarter and included in these $97m to cover write-downs and costs in Asia-Pacific and $51m for Latin America. Mr Losh said he did not foresee additional charges due to Brazil's problems.

GM added that the strong final quarter was helped by continued cost-savings, which totalled about $1bn during the last three months alone.

Meanwhile, the company's Delphi automotive parts arm, due to be spun off this year, saw profits fall from $349m to $280m in the final quarter, largely due to Latin America.

German carmaker buying out Adtranz partner

By Uta Harnischfeger in Frankfurt and Charles Batchelor in London

DaimlerChrysler is to take full control of Adtranz, one of the "big four" makers of locomotives and rail carriages, by paying $472m to buy out its joint venture partner, the Swiss-Swedish engineering group ABB.

The move was welcomed by analysts, who said the purchase of ABB's 50 per cent stake in Adtranz would make it easier for Daimler to restructure the loss-making rail group and turn it into profit.

"The need to restructure massively is the essence of [the deal] and you can do that easier and faster when you take decisions alone," said Georg Stürtzer, analyst at Bayerische HypoVereinsbank in Munich.

Eckhard Cordes, a DaimlerChrysler board of management member and chairman of Adtranz's supervisory board, said: "The move is a clear signal of our commitment to do everything possible to get Adtranz back on track."

Adtranz has made losses since its formation in 1996. After posting a DM380m ($227.5m) loss in 1997 on sales of DM6.4bn, it is expected to have been unprofitable again in 1998.

The problems at Adtranz are mirrored in varying degrees at the other large railway equipment manufacturers, which have had to contend with overcapacity and falling prices in recent years.

Siemens, of Germany, also made losses on rail activities last year. Both Adtranz and Siemens recently parted with their chief executives.

The "big four" – which includes the Anglo-French group Alstom and Bombardier of Canada – have established a global presence in the field of passenger rail by a series of acquisitions of smaller companies.

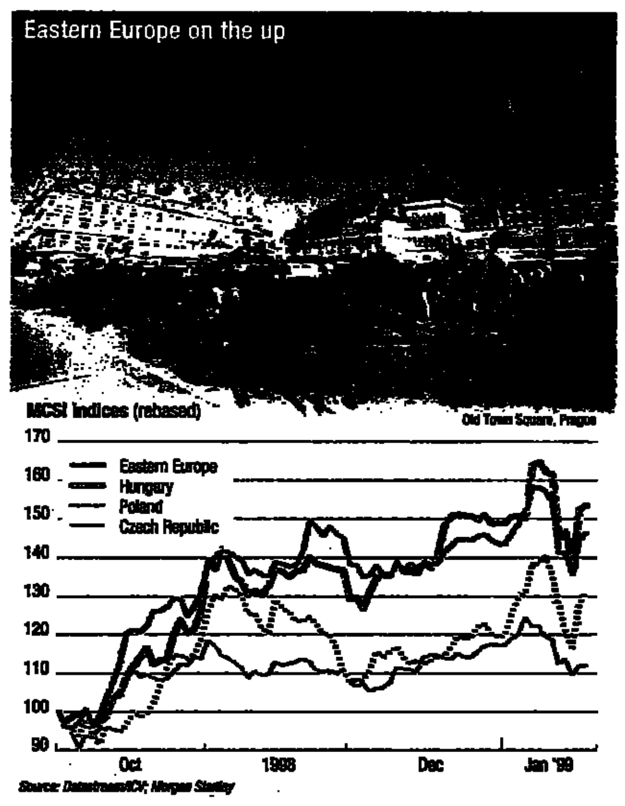
But despite strong demand for mainline rolling stock and city metros, overcapacity has meant some have chased marginally profitable or even unprofitable orders.

Analysts noted Daimler paid a fair price for ABB's stake. Calculated as a percentage of ABB's share of Adtranz's 1997 sales, Daimler paid 26 pfennigs for each DM1 of sales.

WORRIES OVER ASIA AND BACKING FOR EURO PROMPT FUNDS SWITCH

Investors take a shine to eastern Europe

By Jane Martinson, Investment Correspondent



Investors in emerging markets are turning to eastern Europe as a bulwark against concerns over Asia and Latin America and because of enthusiasm about the euro-zone.

Since the beginning of October when the world started to recover from the crisis in Russia, the eastern European index compiled by Morgan Stanley Capital International has risen 20 per cent more than all emerging markets combined. Hungary and Poland have been the main drivers to such outperformance since the beginning of this year.

There is a growing belief among fund managers that this trend could intensify because of the Brazilian default and the continuing enthusiasm over the euro, which is seen as having a knock-on effect.

Matthew Merritt, emerging markets strategist at ING Barings, said: "Eastern Europe provides a solid and relatively safe investment port for emerging markets fund managers for the time being."

Emerging markets investors, suffering from several years of underperformance, have been comforted by the region's links with western Europe. Peter Bassett, head of emerging markets at Henderson Investors, says: "The last time I was in Budapest I could have been in any European capital. I only saw one Trabant. These countries are looking naturally towards Europe."

Such views will provide succour for those afraid that Russia's decline last year would drag down all former Communist states.

Foreign & Colonial Emerging Markets is one of several large fund managers to have taken an overweight position in emerging Europe as a whole since October.

F&C has moved up to $500m out of Asia and Latin America in that period, about 80 per cent of which went into eastern Europe.

It now invests more than 40 per cent of its $3.5bn of funds under management outside Asia and Latin America compared with an index weighting of 28.5 per cent. Almost 5 per cent of an average portfolio is held in Poland and Hungary compared with an index weighting of less than 2 per cent.

There are signs of a two-speed market with the more peripheral markets such as Bulgaria failing to attract investors to the same extent. The Czech Republic has suffered from unease over its banking system in recent months although investors appear far more bullish on the country's long-term future.

The "top-tier" of eastern European markets shares some similarities with other emerging European states such as Greece in terms of investor sentiment.

There are several reasons for this. Most important are signs of economic improvement such as falling interest rates and controlled inflation. There is also the side effect of monetary union in western Europe.

"Europhoria" over the early strength of the single currency and relatively bullish corporate earnings expectations have increased enthusiasm for trading nations near the euro-zone. Arnab Banerji, F&C's chief investment officer, partly explains his group's bullishness by saying: "Eastern European markets are very, very sensitive to what happens in western Europe."

Mr Bassett, who manages about $500m at Henderson, says: "Eastern Europe is one of the great strategic plays in emerging markets right now because of the convergence factor."

It would take an extremely brave, if not foolhardy, investor to predict long-term behaviour in emerging markets with the situation in Brazil still so uncertain.

Investors fear future financial sector problems in eastern Europe and point out that any delay in the accession attempts to the European Union could hit confidence. But for the time being, fund managers are finding Warsaw a far friendlier place than Rio de Janeiro.

Lycos internet group looks for strategic partner

By Christopher Price and John Gapper in London and William Lewis in New York

Lycos, the US internet search engine company, is seeking a media or telecommunications company to become a strategic partner by taking up to a 20 per cent stake, one of its executives said yesterday.

Eric Gerritsen, vice-president for international business development, said Lycos was not contemplating selling all of the business in a move similar to the $6.7bn purchase of Excite by @Home Networks on Tuesday.

But Mr Gerritsen confirmed that Lycos had entered into "informal discussions" with media and telecoms companies over them making an investment of up to $1bn. He would not discuss the companies involved.

Speculation in New York centred on the German media company Bertelsmann, with which Lycos operates a joint internet venture in Europe. Bertelsmann already holds a stake in America Online valued at $1.1bn.

Thomas Middelhoff, chairman of Bertelsmann since the end of last year, has pushed the company towards internet investments, and was behind its purchase of a 5 per cent stake in America Online in 1995.

Microsoft, the US software group, was also rumoured to have discussed a partnership with Lycos. By lunchtime in New York, Lycos' share price was up 7\frac{1}{16}$ at $120¼, giving the group a market capitalisation of more than $5bn.

Mr Gerritsen said Lycos did not need an injection of capital but wanted a partnership with a sizeable group. "We do not need the money. But we could do with the global clout a large media or telecoms group could bring."

His remarks came as he was outlining Lycos' international strategy, which is likely to lead to a number of deals in the coming months.

The company has attempted to differentiate itself from other search engine companies by establishing internet community sites. These are destinations which promote services such as chat rooms and personal contacts.

By encouraging users to stay within the confines of the site, Lycos gains from advertisers and electronic commerce licencing to retailers. It has been keen to export this approach overseas through local partnerships.

Mr Gerritsen said a partner covering 24 countries in south-east Asia would soon be announced, as would a partner covering Africa. A new service for Latin America is about to be launched, which the company is funding alone.

Lycos said 46.5 per cent of web users visited its network in December, according to an internet measurement group.

GEC and BAe to resist inquiry by UK regulator

Lawyers build case against referring $11.5bn deal

By Our UK and International Staff

Lawyers for British Aerospace and General Electric Company yesterday began to marshal arguments against reference of BAe's £7bn ($11.5bn) purchase of GEC's Marconi defence division to Britain's Monopolies and Mergers Commission.

The deal will be looked at by regulators in London, Washington and possibly Brussels. A senior European Commission official said competition experts had not yet determined whether it fell under the jurisdiction of the European Union executive.

The companies are expected to argue to the UK Office of Fair Trading that BAe and Marconi do not compete directly in the supply of most defence equipment. The OFT has to decide whether to recommend Stephen Byers, the trade and industry secretary, to refer the deal to the MMC.

Another important element of their case will be that MMC scrutiny, which could last six months, would unduly delay consolidation of the defence industry across Europe.

Tony Blair, the UK prime minister, said the deal was "very welcome from the companies' commercial point of view", but made clear he wanted BAe to pursue European alliances. "I do want to see European defence restructuring because it is absolutely in the interests of this country."

Denis Ranque, chairman of Thomson-CSF, the French electronics group, said BAe/Marconi would constitute a national bloc which would be hard to reconcile with the European perspective of industry restructuring.

Lionel Jospin, the French prime minister, spoke of a possible Franco-German aeronautics rapprochement. "We are going to make proposals in this direction," he said.

Lawyers for the UK companies have approached the European Commission, which normally vets all big mergers in the EU, to determine whether it requires competition scrutiny in Brussels.

A clause in the EU treaty in effect bars the Commission from examining defence mergers for reasons of national security.

BAe's shares rose after a sharp fall on Tuesday as the City worried about whether it was overpaying. Several stock market analysts said the Marconi deal was good for BAe, and Moody's Investors Service placed BAe's debt rating under review for possible upgrade. BAe shares rose 24½p to 450p.

GEC fell 21p to 525½p as investors continued to assess the company's opportunities to spend its cash mountain after selling its defence arm.

Reporting by Alexander Nicoll and David Wighton in London, Emma Tucker in Brussels and David Owen in Paris

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BANKS SANWA AND TOYO TRUST UNVEIL COLLABORATION EXPECTED TO LEAD TO CREATION OF SINGLE GROUP

Further link-up in Japanese banking

By Gillian Tett in Tokyo

Sanwa Bank and Toyo Trust, two of Japan's largest banks, yesterday announced plans to combine part of their asset-management and banking businesses.

The two banks stressed this would not entail an immediate merger. However, the collaboration is expected to lead to a joint holding company to create a single banking group, bank officials said.

The step is another sign of the growing pressures for restructuring in Japan's banking sector.

On Tuesday, Chuo Trust and Mitsui Trust, the country's third and sixth largest trust banks, announced they would merge next spring.

Expectations are rising that the government will force more consolidation before it injects up to Y25,000bn ($220bn) into the banks' capital base this spring.

Hakuo Yanagisawa, chairman of the committee in charge of dispersing the Y25,000bn funds, for example, yesterday called on the banks to accelerate their restructuring efforts.

"We cannot procrastinate in coming to terms with the bad-debt issue any further. It must be dealt with as quickly as possible," he said.

The Japanese media also reported yesterday that Mitsubishi Trust was planning to merge with Nippon Trust, another trust bank which is effectively controlled by Bank of Tokyo Mitsubishi, and BTM's existing trust bank subsidiary.

Some reports also suggested that Fuji Bank was preparing to establish a holding company soon and incorporate Yasuda Trust into this group.

Both BTM and Fuji denied that they had taken any concrete decision to implement these plans yet. However, such steps would be in line with Japan's traditional corporate loyalties.

Fuji and Yasuda are both members of the Fuyo *keiretsu*, or corporate family. Mitsubishi, Nippon Trust and BTM are all members of the Mitsubishi *keiretsu*.

Sanwa and Toyo Trust are also traditional business allies, and are already collaborating in areas such as the investment-trust business.

However, yesterday's announcement is the clearest signal that the two will move to a holding company soon.

The deal will leave them creating a joint venture to manage a pension business and jointly running multi-function branches.

Sanwa's Trust Bank subsidiary will also be placed under the control of Toyo Trust, and Sanwa will run Toyo's overseas operations.

The deal is expected to strengthen Sanwa, which is already one of the stronger banks. However, Sanwa still lacks any effective securities business. It is widely expected to seek additional alliances soon with either a foreign or Japanese partner.

Shake-up gains momentum as government gets serious

After years of procrastination, Tokyo appears to be winning the battle for a new wave of banking reform, writes **Gillian Tett**

One of Japan's senior bureaucrats is carrying a striking list in his pocket. It cites the names of what used to be Japan's largest 21 banks – with a cross against those which have failed, nationalised, merged or formed alliances since Big Bang started. "You can see more half of them have changed status," he said recently. "That shows we are reforming!"

This week has seen the crosses multiplying. For though Japan's banking sector might have seemed quiet in recent weeks, behind the scenes the banks and government have been locked in a crucial tussle over the pace of reform. As the fiscal year-end approaches, it is the government which appears to be winning this battle – and forcing through a new wave of restructuring.

On Tuesday, Mitsui Trust and Chuo Trust announced plans to merge. Yesterday Sanwa Bank and Toyo Trust declared plans for an asset-management alliance. Mitsubishi Trust has indicated it could soon merge with Nippon Trust, which is already controlled by Bank of Tokyo Mitsubishi. And speculation is now rising that other groups, such as Daiwa, Sumitomo Trust, Fuji, Dai-Ichi Kangyo and Sakura could soon follow suit. As Yoshinobu Yamada, analyst at Merrill Lynch, says: "I think the government is serious about restructuring now. The [Chuo-Mitsui] merger shows that."

The essential trigger for this activity has been the Y60,000bn ($528bn) financial support package unveiled by Keizo Obuchi, Japan's prime minister, last autumn, which includes about Y25,000bn earmarked for capital injections into the banks.

When the government announced this package, many analysts assumed that the Y25,000bn would never be spent, or simply dispersed with no strings attached. After all, a similar package was unveiled in early 1998, but delivered little reform.

However, two shifts have recently occurred to give this second package more impact. First, the government has at last started to acknowledge the sheer scale of Japan's banking woes. Second, politicians' attention has shifted away from the financial woes to other issues, such as the US defence pact. This has meant that banking reform is now being run by a small group of bureaucrats, centred around the Bank of Japan and the Financial Supervisory Agency.

After years of procrastination, these bureaucrats now have a clear game plan, though they rarely spell it out in public. By the end of March they hope to give the banks enough cash to write off their bad loans and appear financially healthy in their fiscal 1998 accounts. In exchange, they are demanding a wave of restructuring designed to give the banks sufficient credibility to stave off any fresh market crisis.

They are effectively dividing the banks into groups, on the basis of recent FSA inspections. The weakest, such as Mitsui Trust or Nippon Credit Bank, are being weeded out through mergers, when a partner can be found, or nationalisation, when it cannot.

The strongest, such as Sumitomo, Sanwa and Industrial Bank of Japan, are being encouraged to act as industry leaders by publicly declaring they will apply for public funds.

Meanwhile, the mass of banks in the middle are being encouraged to implement sweeping restructuring, more alliances – and a massive withdrawal from overseas operations.

These plans have been greeted with horror by many banks, which have retaliated by refusing to apply for more than Y6,000bn of the Y25,000bn funds on offer.

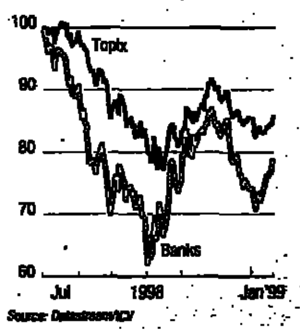
However, some banks fear that if they defy the Financial Supervisory Agency, the sector's watchdog, "embarrassing" details of the FSA inspection would soon find their way into the Japanese press.

"The FSA is becoming more confident," concludes one diplomat, who forecasts that in a year, the number of banking groups will have fallen to around a dozen.

Cutting the number of banks alone will certainly not solve all the problems. Indeed, it remains extremely unclear whether the newly merged banks will be profitable. Chuo and Mitsui, for example, have not yet indicated how they plan to make any cost savings in their overlapping businesses.

But after years of policy dithering, the growing pile of "crosses" on the bureaucrats' list suggests that Japan's banking problems are moving into a new phase. The key task for the government is no longer ensuring that it avoids the collapse of a large bank. Instead, the big job is to find a credible business vision for the survivors – with or without any "crosses" against their names.

Japanese banks: under pressure
TSE indices (rebased)



Source: Datastream/ICV

Hakuo Yanagisawa, chairman of finance reconstruction committee

Acer chip unit sees return to the black

By Mure Dickie in Taipei

Acer Semiconductor Manufacturing, a unit of Taiwanese computer group Acer, said yesterday it expected to end a string of losses with a profit of T$1bn (US$31m) this year. However, analysts said the forecast could prove optimistic.

The return to profit would come on the back of a rise in prices for its D-Ram memory chips and from the introduction of new products, the unit said. It lost about T$5bn in both 1997 and 1998 – among the worst corporate results in Taiwanese history.

It was unclear what D-Ram price-levels Acer Semiconductor was basing its forecast on, but Stan Shih, the unit chairman, said recently he expected it to generate a small profit at a "conservative" price prediction of more than $6 a standard chip.

"I trust Stan Shih, but maybe the D-Ram business will not be as good as they expect right now," said Tony Tseng, an electronics analyst at Warburg Dillon Read. "I still think the company will make a loss this year."

Mr Tseng said profit predictions by other Taiwanese semiconductor powerhouses suggested Acer Semiconductor was being more optimistic than its competitors.

The unit, which is about 50 per cent owned by Acer and has dragged down the group's results in recent years, had expected to break even in 1998.

Acer Semiconductor said it planned to seek approval to list shares in Taiwan in the second half of 2000, a plan it outlined last year.

Analysts say Acer Semiconductor will need to raise capital to catch up with competitors already capable of producing smaller, higher-value chips. The unit is expected to announce soon an agreement to use semiconductor technology from Fujitsu of Japan as part of its efforts to upgrade its products.

Daiei president steps aside

By Naoko Nakamae in Tokyo

Isao Nakauchi, the founder of Daiei, yesterday announced his resignation as president after 40 years at the helm of Japan's largest supermarket operator. He has been replaced by Tadasu Toba, vice-president.

But Mr Nakauchi, who will retain his position as chairman, will maintain an active role in the business. He denied that his resignation was linked to Daiei's continuing poor performance or that he had received pressure from the group's creditor banks.

In the first six months of the fiscal year, Daiei fell into the red with a net loss of Y983m ($8.6m).

"We are now entering what will be a difficult year . . . I'd like my actions to show them that we're in a new environment." Mr Nakauchi said.

The appointment of Mr Toba by-passes Mr Nakauchi's eldest son, Jun, who was yesterday appointed head of the total planning and co-ordination division. But Mr Toba left the door open for the eventual succession of Jun Nakauchi, hinting that when the restructuring was completed and Daiei was back on its feet, he would be passing the baton on to "the next generation".

Mr Nakauchi said that the new structure symbolised a change in the group's decision-making process. "From now on, the traditional top-down process will become committee-based," he said.

But analysts were sceptical. "My impression is that the one-man show will remain a one-man show," said Byron Gill, retail analyst at Salomon Smith Barney in Tokyo.

Daiei is struggling to keep its head above water after consumer spending collapsed amid Japan's worst post-war recession. The retailer has about Y2,600bn in liabilities, and although it has been implementing a restructuring programme, it has produced few results so far.

Analysts said that yesterday's changes would have little impact. "Daiei's restructuring schedule isn't aggressive enough," said Michael Allen, retail analyst at ING Barings in Tokyo. "At the moment, it's like a low-flying airplane that is running out of petrol."

JAL rejig to cut costs

By Alexandra Harney in Tokyo

Japan Airlines plans to shift some flights to a low-cost domestic subsidiary and reroute its planes away from Asia towards the US, in the latest reforms aimed at lowering costs and eliminating the carrier's interest-bearing debt burden.

The plan, which would go into effect from this April, would increase the number of routes in Japan flown by JAL Express, its small-plane subsidiary, from two to nine by the end of 1999. The move would allow the parent to take advantage of JAL Express's lower cost base.

The carrier also plans to start direct flights to several cities in the US, to compensate for weakened demand in Asia as a result of the economic crisis.

JAL intends to control costs in its fleet by increasing the number of planes under operational leases.

The airline also said it planned to liquidate JUST, a domestic cargo subsidiary in which it holds a 69.7 per cent share, this March. However, the company said that Y1.7bn ($15m) in extraordinary losses as a result of the liquidation would not affect earnings this term.

JAL is expecting Y10bn in after-tax earnings in the year ending in March, compared with losses of Y94.19bn last time. The group also expects to be able to resume dividend payments, after recording huge extraordinary losses as part of a restructuring in 1998.

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Baan shares slip on warning of deeper loss

By Jeremy Gray in Amsterdam

Shares in Baan fell 8 per cent yesterday after the ailing Dutch business software group said it expected a fourth-quarter loss of $250m and widened its estimate of its third-quarter deficit.

Baan attributed much of the loss to an "aggressive restructuring plan" unveiled last October, when it said it would take a pre-tax charge of $110m. Yesterday, however, the company said the revamp – which includes a 20 per cent cut in staff, the closure of 50 offices, disposals and asset write-downs – would cost $160m.

The company also said the loss included a $50m revision for unsold goods in the inventories of retailers and distributors.

Tom Tinsley, chairman, said the fourth quarter "was an opportunity to take aggressive steps to stabilise Baan's business and set the stage for restoring revenue growth and profitability". The company had lowered its operating costs to $200m a quarter, which would enable it cope with tough market conditions.

Baan also said accounting changes linked to its recent purchase of Caps Logistics would incur a third-quarter charge of $16m. As a result, the pre-tax loss during the three months would total 24 cents a share, compared with its previous estimate of a 16 cents shortfall.

As a part of the revamp, the company also said it had bought Baan Midmarket Solutions (BMS), a distribution unit owned by Vanenburg Ventures for $2m in cash and 15 per cent of the reseller's revenues over the next three years.

Vanenburg, the investment vehicle controlled by the Baan family, owns roughly 25 per cent of the Dutch software group.

Devika Malik, an equity analyst at J.P. Morgan in London, said Baan's past practice of reporting indirect sales to distributors had allowed the company to inflate its balance sheet.

"At the end of the day, Baan has an inventory problem at BMS, and they have to clean it up now because they're acquiring the company," she said. "That's scary."

However, Ms Malik said it was positive that Baan managed to cut 1,250 staff in the fourth quarter alone.

The stock closed down €0.80 at €9.

Nordic telecoms groups to merge

By Tim Burt in Stockholm and Valeria Sköld in Oslo

The governments of Sweden and Norway plan to form one of Europe's largest telecommunications groups by merging Telia, the Swedish state-run telephone company, with its Norwegian rival Telenor.

The deal, the first cross-border merger of nationally-owned telecom companies in Europe, will create a dominant force in the Nordic communications market.

Officials in Stockholm and Oslo hinted that the company – boasting pro-forma operating profits of SKr12.3bn ($1.6bn) on sales of almost SKr79bn – would explore international alliances.

Such alliances could follow a partial privatisation of the enlarged group, due to be completed before the end of 2000, which is expected to value the group at more than SKr300bn.

Telenor already has an alliance with British Telecommunications, while Telia has been linked with AT&T of the US in the past.

"We could seek exclusive international alliance partners, but the first priority is to create a Nordic flagship in the telecommunications and IT industry," said Tormod Hermansen, chief executive of Telenor.

Mr Hermansen, named chief executive of the enlarged group, said the new company would rank behind Telefónica of Spain as the EU's sixth largest telecoms operator. It will employ 51,000 people and have a strong presence in mobile, fixed-line, cable television and internet services.

Yesterday, analysts warned that potential partners could be deterred by the Swedish and Norwegian governments' decision to each retain a 33.4 per cent stake following an initial public offering. They have also imposed a 3 per cent ceiling on shareholdings in the group once it comes to market in Stockholm and Oslo.

The Swedish government will initially receive 60 per cent of the enlarged group, reflecting Telia's sales of SKr49.7bn and pre-tax profits of SKr6.8bn in the 12 months to September 30 last year. Telenor achieved profits of SKr2.35bn on turnover of SKr29.1bn in the same period.

Telenor and the Norwegian government were advised by HSBC Investment Banking, J. P. Morgan advised Telia and Goldman Sachs acted for the Swedish government.

Telia link-up set to produce telecoms jewel

Deal with Telenor will bring together fixed and mobile expertise, write **Alan Cane and Tim Burt**

Another day, another deal in the turbulent telecommunications sector.

But the proposed merger announced yesterday between Telia of Sweden and Telenor of Norway is more than just Scandinavia's contribution to the sector's accelerating consolidation. It is likely to provide the catalyst for a fundamental shift of alignments in the European industry.

The deal will result in the formation of a medium-sized operator with excellent technical capabilities, particularly in mobile telephony, annual revenues of about $10bn and operating profits of some $1.6bn.

About one-third of the company is intended to be sold as soon as possible in an initial public offering that could value the merged group at about $30bn.

Economies of scale following from bulk buying and common ownership of switching and transmission facilities should lead to savings of about SKr20bn ($2.58bn) a year, enabling the group to cut further prices that are already among the lowest in Europe.

The group will have a diverse spread of overseas assets. Telia has investments from the Philippines and Sri Lanka to the US, while Telenor has interests in Greece, China, the Czech Republic, Slovakia and elsewhere.

The two companies combined will also have greater clout in making acquisitions and forming strategic alliances abroad than either has on its own.

Tormod Hermansen, Telenor chief executive who will head the enlarged group, said yesterday it was intended to create a Nordic flagship. "We are open to international alliance partners. That would be natural in a globalising industry."

The obvious partner would be British Telecommunications. The UK group has links with Telenor through shareholdings in the new operators Telenordia in Scandinavia and Viag Interkom in Germany.

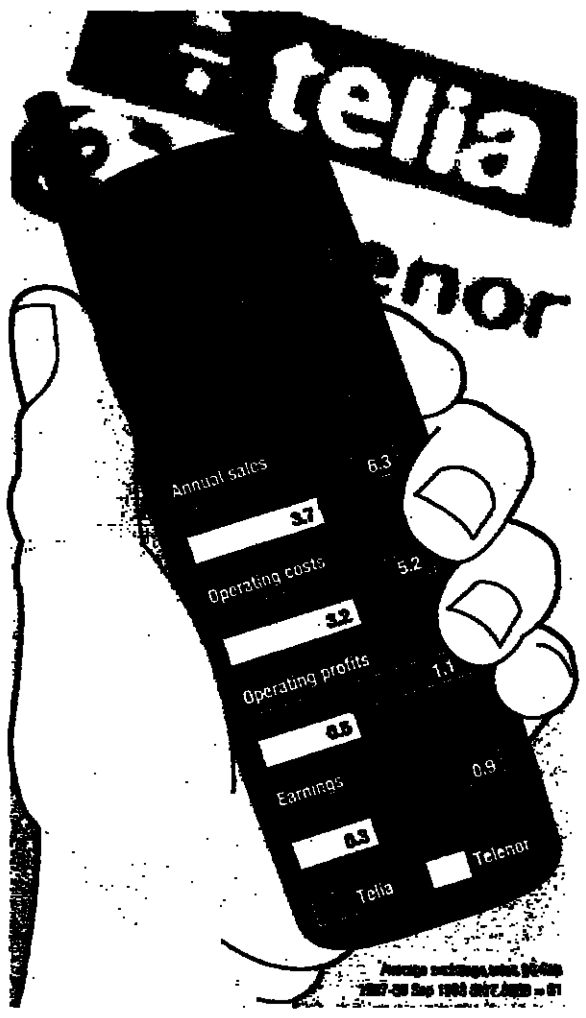
BT yesterday said no talks on a further alliance were in progress. It did not expect the merger to affect its existing relationships with Telenor.

Sonera, the national Finnish operator, might also be a logical partner for a Scandinavian carrier.

Mikael Sandberg of Analysys, the telecoms consultancy, argues that the deal will create a telecoms jewel. "All global players will have to be seriously interested in this company," he says.

Considerable cultural barriers, however, have had to be overcome to arrive this far. Not only will it be the first cross-border merger between state-owned companies in European telecoms, but it will also bring together strategic assets of two countries that traditionally compete rather than co-operate.

A merger was mooted a year ago but talks failed on questions of valuation and, insiders say, personality differences.



Since then, however, the twin pressures of industry consolidation, exemplified by the merger of Vodafone of the UK and AirTouch of the US, and the growing investment demands of new technology persuaded governments and company officials to re-examine the issue.

Telia will have been influenced by clouds over the future of Unisource, a European strategic alliance that linked it with KPN of the Netherlands and Swisscom.

Following the planned withdrawal of AT&T of the US from links with Unisource, the partners are retaining small stakes but are no longer using the company as a vehicle for their international ambitions.

The Telenor-Telia deal has involved overcoming Scandinavian reservations about privatisation. Even so, both governments will retain 33.4 per cent of the company and some analysts are questioning their reluctance to sell off more of their holdings – especially in an industry where market liberalisation and privatisation have gone hand-in-hand.

"There seems to be an inertia over full privatisation that could restrict the group's freedom to do more interesting deals in future," one Swedish analyst said.

Göran Persson, the Swedish prime minister said: "The sell-off will take place in such a way that public majority ownership in the new company is not threatened."

The enlarged group will nevertheless boast a strong consumer presence in a market with the world's highest mobile phone penetration and a useful foothold in the satellite communications sector.

In a world where mobile telephony seems set to vie for dominance with the fixed-wire variety, the merged group's combination of fixed and mobile expertise should prove irresistible to potential partners.

Airline sell-offs move closer

By David Owen in Paris and David White in Madrid

The French and Spanish governments are set to move ahead next week with the partial privatisations of their national carriers, Air France and Iberia.

La Tribune, the French business newspaper, reported yesterday that pre-placement of some 20 per cent of Air France shares should begin next week with listing likely in late February.

In Spain, terms are due to be made public next week for the sale of 30 per cent of Iberia, Spain's state-controlled airline, to Spanish institutional shareholders as part of a privatisation plan.

Banking, construction and travel groups are thought to be considering bids to become "core" shareholders.

Pedro Ferreras, chairman of the state holding company Sepi, which now owns 95 per cent of Iberia, said recently the stake would be auctioned in packets of between 3 and 10 per cent, with the minimum price geared to that paid by British Airways and American Airlines for a joint 10 per cent holding.

Iberia indicated this week that group pre-tax profits would be about Pta37bn (€222m, $258m) for last year up from Pta20.1bn in 1997.

The French government is thought to have been mulling over which of two widely expected initial public offerings to proceed with first: Air France or the partial privatisation of Aerospatiale, the aerospace group.

No one directly connected with the Air France transaction would comment yesterday. But London bankers said they expected pre-marketing to begin next week.

BNP, the French bank, is valuing the company at €3.7bn ($4.29bn). Jean-Cyril Spinetta, the airline's chairman, said last month that shares worth between FFr3.5bn and FFr4bn (€534m, $519m and €610m, $708m) were likely to be sold.

VA Tech eyes Kvaerner unit

By Eric Frey in Vienna and Valeria Sköld in Oslo

Voest-Alpine Technologie (VA Tech), the Austrian engineering group, is in talks with Kvaerner about the acquisition of the Anglo-Norwegian group's metals division through its Voest-Alpine Industrieanlagenbau (VAI) subsidiary.

The link-up would create the second largest metallurgical plant producer behind Germany's SMS Demag, which was created through the merger of Mannesmann Demag and SMS.

Kvaerner's metals division accounted for about 10 per cent of the group's revenue until a restructuring in October last year.

VA Tech declined to give details but Kvaerner said it was talking to "various partners" about selling its metals division, the core of which it acquired in 1996 when it took over the UK group Trafalgar House and its Davy subsidiary. It could be several months before any deal is concluded, the company said.

Last October, Othmar Pühringer, VA Tech chief executive, denied there were concrete acquisition talks with Kvaerner, but he confirmed the existence of "theoretical models" pointing in this direction.

The link-up between Mannesmann and SMS increased the pressure on VA Tech to look for further acquisitions to remain a key player in the global metals plant business. VAI's annual sales of Sch9bn (€654m, $759m) pale compared with those of SMS Demag with revenue of DM3.6bn (€1.84bn, $2.1bn).

Kjell Almskog, Kvaerner chief executive, has prioritised slimming the engineering and shipbuilding group to improve profitability.

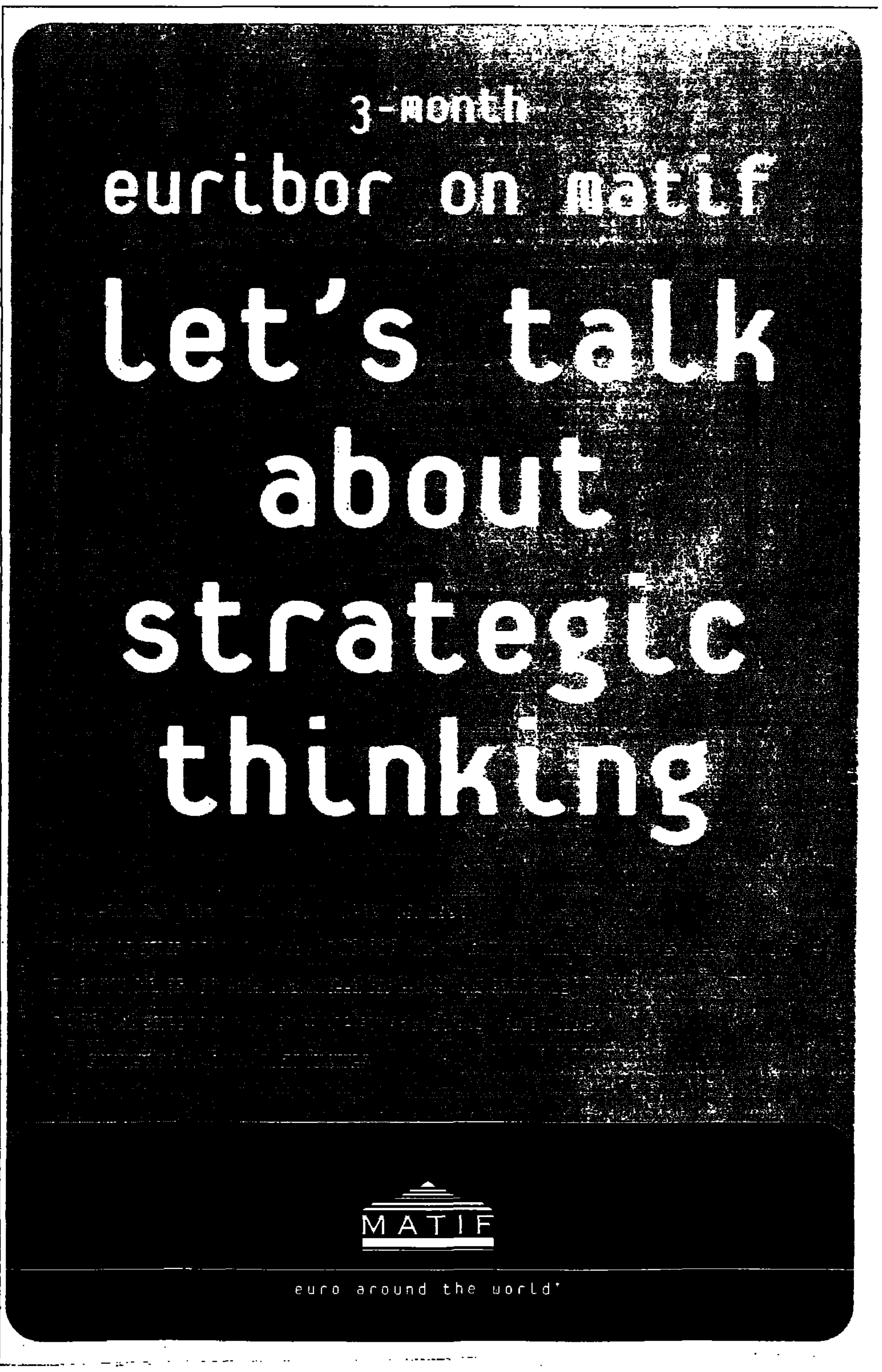
Cap Gemini earnings rise 62%

Cap Gemini, the French-based computer consultancy group, yesterday posted a 62 per cent advance in annual profits, writes David Owen in Paris.

The fast-growing company, now firmly entrenched among the biggest French-based groups in terms of market capitalisation, reported net income for 1998 of FFr1.24bn (€189m, $219m), against FFr762m a year ago.

Consolidated revenue climbed 28 per cent to FFr25.9bn, in line with expectations. Operating income rose 63 per cent to FFr2.66bn, giving an operating margin of 10.3 per cent, against 8.1 per cent in 1997.

The group attributed the buoyancy of the management consulting and IT services markets to an acceleration in technological developments and a reduction in the cost of communications.



MEDIA RADIO GROUP HIRES BT ALEX BROWN TO EXPLORE OPTIONS

Chancellor may put itself up for sale

By Christopher Parkes in Los Angeles

The market value of Chancellor Media soared 20 per cent yesterday morning after the company, a leader of the recent consolidation in the US radio industry, said it might be put up for sale.

The shares rose $9\frac{3}{8}$ to $55\frac{5}{8}$ in early trading, valuing the business at $7.8bn, as investors reviewed the high valuation recently put on CBS's smaller radio business, spun off from the network in December, and speculated on the possibility of a sale to an integrated entertainment company.

Walt Disney's ABC television network and NBC, General Electric's network subsidiary, were seen as possible partners, with attention focused on Chancellor's 465 radio stations.

Other radio companies that have also grown rapidly through acquisitions since the market was deregulated in 1996 could be interested, although the Federal Communications Commission hinted recently that it was concerned about the pace of consolidation.

A brainchild of the Hicks, Muse, Tate & Furst buy-out firm, Chancellor said it had appointed BT Alex Brown, the investment bank, to explore options because of a "substantial disparity" between its market value and those of comparable companies.

Options included sale and merger of the whole company or parts, which include 13 newly acquired television stations and a billboard advertising division with about 36,000 sites.

Jeffrey Marcus, chief executive, said recently that Chancellor would concentrate on proving that advertisers would welcome the chance to buy mixed-media packages of radio and TV time and billboard space for regional markets.

He said an agreement last summer to buy Capstar Broadcasting – another Hicks, Muse company – in an all-share deal worth about $4bn, marked the end of a five-year buying spree.

Chancellor's stock price has lagged behind that of some of its rivals lately as concerns emerged that the slowdown in the US economy might depress demand for advertising.

Recent estimates suggested Chancellor's radio revenues for 1998 would reach $1.8bn, putting it just ahead of the CBS-controlled Infinity group, which raised almost $2.9bn when 17 per cent of the company was sold to the public last month.

Hicks, Muse is Chancellor's largest single shareholder, with a 12 per cent stake, and Tom Hicks, the firm's leading light, is chairman.

Although the pace of consolidation in radio has slowed in the past six months, deals valued at more than $40bn have been completed in the past three years.

Microsoft demonstrates its dominance

By Louise Kehoe in San Francisco

Microsoft's stunning second-quarter earnings growth has created an embarrassment of riches for the world's largest software company.

Even as Microsoft's lawyers were battling in Washington with the US Justice Department over charges the company had abused its alleged monopoly in personal computer operating systems to elbow out competitors in the internet browser market, executives on the West Coast were reporting a 73 per cent jump in quarterly earnings.

Microsoft earned almost $2bn in net profits, up from $1.1bn a year ago.

These figures demonstrated more clearly than weeks of government evidence in the Washington trial, that Microsoft rules the PC software market.

World shipments of PCs had risen by over 25 per cent in the quarter, Microsoft said. This led to a 38 per cent surge in quarterly revenues, to $4.94bn. Net profit margins also reached a record 40.2 per cent. The company's cash reserves swelled to $19.3bn, up from $17.2bn a year ago.

Microsoft shares rose 10\frac{3}{16}$ to 165\frac{9}{16}$ in mid-session yesterday, giving the company a market value of over $413bn and making it by far the world's most highly valued company. General Electric, the next largest company, was worth $333bn yesterday.

Microsoft attempted to play down its earnings growth, saying it was consistent with industry trends. In remarks clearly aimed at government officials, Bob Herbold, chief operating officer, said it would be "hard to think of any other industry that can boast the unprecedented growth ranging from creation of new jobs to the number of new start-ups to increased flow of capital investment".

Yet Microsoft stands almost alone in achieving such strong financial results. Intel, the world's largest chip manufacturer, also achieved record earnings, with net income up 18 per cent at $2.1bn, but results from most other US high-tech companies, although strong, have not matched Microsoft's success.

Microsoft's earnings growth may raise further questions about the company's pricing and marketing policies, which have come under scrutiny in the anti-trust trial.

In particular, Microsoft's revenues from software that is pre-installed by PC manufacturers, jumped by 48 per cent, or almost double the growth in PC shipments. This suggests the average revenue Microsoft derives from the sale of a PC is growing rapidly.

However, Wall Street analysts seem unaware of the possibility Microsoft's latest results could fuel its legal problems. In a lengthy conference call hosted by Greg Maffei, chief financial officer, most of the analysts' questions seemed to reflect concerns about adjusting their models for predicting the company's earnings, rather than legal issues.

Caterpillar warns of profits setback

By Nikki Tait in Chicago

Caterpillar, the world's biggest maker of heavy earth-moving equipment, warned yesterday it expected profits to drop in 1999, with falling demand in Japan, Latin America and Canada cancelling positive trends in Europe.

Caterpillar derives more than half its sales from outside the US, and until the recent economic upheavals, more than 40 per cent of export sales came from the Asia-Pacific and Latin American regions.

As the company unveiled a 9 per cent fall in after-tax profits for 1998 – in line with market expectations – it also painted a picture of worsening conditions in the current 12 months.

Caterpillar said low commodity prices were likely to "slightly lower" demand for construction and mining machinery, while similar trends in the agricultural sector were likely to depress demand there.

On a geographic basis, the group expected machine demand in the US to remain close to 1998 levels but predicted falling demand in the UK, Japan, Canada, Australia and Latin America would offset more positive trends in continental Europe.

Caterpillar forecast "severe recession" in Brazil during the first half of 1999 spreading to other countries in the region. Demand in Latin America was expected to "decline significantly" as a result.

The overall result would be to lower profits "moderately", with sales falling "slightly" from 1998 levels. The forecast profits fall was attributed to the decrease in volumes, coupled with the continued competitive pricing environment.

Analysts had expressed concerns about the build-up in dealer inventories, and Caterpillar acknowledged yesterday that price increases over the past year had been more than offset by discounting.

The cautious outlook came as Caterpillar reported an 11 per cent increase in sales for 1998 to $21bn, but a dip in after-tax profits to $1.51bn, down from 1997's $1.67bn. Fourth-quarter sales were up a more modest 4 per cent, at a record $5.41bn, but profits fell by one-third to $301m.

Caterpillar warned last month of a fall in fourth-quarter profits, and blamed the shortfall on lower margins and "continued spending for growth initiatives".

Earnings per share for the final quarter were down from $1.20 to 83 cents, in line with analysts' forecasts. Full-year earnings per share stood at $4.11, down from $4.37 a year earlier.

Caterpillar shares eased $\frac{3}{8}$ in early New York trading yesterday to 45\frac{13}{16}$.

GE in race to become first $10bn earner

By Richard Waters in New York

General Electric has put itself on track to become the first US company ever to earn $10bn in annual after-tax profits - unless Exxon, through the purchase of Mobil, gets there first.

The US manufacturing and services group reported yesterday that it had capped a turbulent year in the global economy with net income in the final quarter of $2.67bn and earnings per share of 80 cents, both increases of 14 per cent from a year before.

The continuation of GE's steady earnings growth had been foreshadowed in comments made by the company shortly before the end of 1998, and it confirmed once again the factors that have made it possible for GE to sail through the global turbulence like a supertanker through choppy seas.

Revenues rose by 7 per cent to $28.6bn, helped by $18bn worth of acquisitions during the year and a move into selling services.

Many of those acquisitions were outside the US, and GE's revenues from abroad climbed 10 per cent during the year. The group also dodged a bullet thanks to its relatively low exposure to Asia, which had accounted for only around 8 per cent of revenues in 1997.

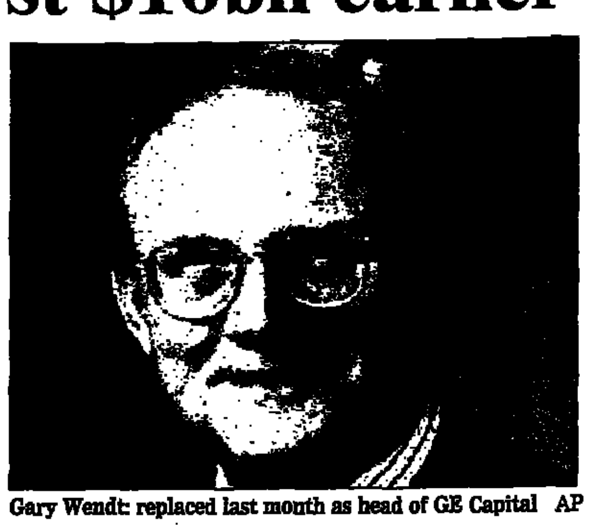
Meanwhile, GE's operating profit margin rose a percentage point to 16.7 per cent. Higher-margin service businesses helped, as did the group's so-called "six sigma" initiative to boost quality: the latter contributed an estimated $1.2bn in savings last year, GE said.

The financial services business built by Gary Wendt, who was replaced as head of GE Capital last month, also remained one of the group's most powerful engines.

GE Capital's earnings rose 17 per cent during the year, to $3.8bn.

All of this was enough to lift GE's net income for all of 1998 by 13 per cent to $9.3bn, or $2.80 a share. That is likely to have put its profits ahead of any other US company last year.

GE lost its position as the most valuable US company to Microsoft late last year, however, and is likely to lose its position as the most profitable one to Exxon this, assuming that company's proposed takeover of Mobil is completed as planned.



Gary Wendt: replaced last month as head of GE Capital AP

Telmex seeks to block mobile charge plan

By Andrea Mandel-Campbell in Mexico City

Telmex, Mexico's leading telecommunications company, has temporarily blocked government efforts to boost domestic cellular telephony by legally challenging the introduction of "calling party pays", which shifts the cost of dialling cellular phones to the caller.

The move has caused outrage among competitors, and Cofetel, Mexico's telecoms regulatory body, is seeking to overturn an injunction against the mechanism, granted to Telmex on Friday by a Mexico City judge.

Calling party pays, which was to be introduced on March 1, has been a boon to nascent mobile-phone industries across Latin America. By introducing the scheme in Mexico, telecoms authorities were seeking to spur growth by making wireless phones more affordable.

For Telmex, however, it poses an unusual problem. Though it has a cellular phone subsidiary, Telcel, Telmex has a virtual monopoly on land lines and local services. It predicted that calling party pays would result in a drop in the volume of calls on fixed telephone lines and an increase in unpaid bills by consumers doubly squeezed by higher prices and a slowing economy.

Carlos Slim Helú, Telmex chairman, has called the plan authoritarian and capricious. "You are talking about just 10 to 15 countries in the world that operate using calling party pays," said Arturo Elías, head of regulation and new technologies at Telmex.

Telmex has said it paid a 10m peso ($1m) bond to secure the court order against calling party pays.

But the real issue, analysts say, concerns who keeps the revenue generated by calls made from fixed phone lines to wireless. Telmex is lobbying to hold on to 70 per cent it currently takes. Cofetel has countered 35 per cent, still significantly above the 10-15 per cent collected by fixed-telephone-line operators in other Latin American countries.

"What Telmex is asking for is unheard of in any other Latin American market," said Leslie Arathoon, Mexican research analyst with Pyramid Research. "This is an example of Telmex really trying to use its clout."

A court decision is expected by the end of the month on the fate of the system and if Cofetel prevails, Mexico's cellular phone companies and those who have won a rash of recently awarded Personal Communication System (PCS) wireless phone licences stand to gain handsomely.

It will be important in shoring up the mobile industry in Mexico, said Roberta Lopez Negrete, manager of strategic communications for Pegaso, a telecoms company launching cellular services in Tijuana in the first quarter of this year. It plans to invest $1.3bn nationwide over the next five years.

Analysts predicted Telcel would grow 80 per cent this year. In 1998 its subscriber base increased an estimated 90 per cent.

Credit card duo defy bank trend

By John Authers in New York

Last year was a poor one for US banks, whose growth was more modest than for years, with the Keefe, Bruyette & Woods/Philadelphia Stock Exchange banking index rising by only 6.6 per cent, massively under-performing the S&P 500.

But two credit card issuers, both of which describe themselves more as marketing companies than banks, showed there were profits to be found.

The share price of Capital One Financial of Virginia rose 112 per cent, while San Francisco's Providian Financial rose 149 per cent.

Their success is all the more surprising as many medium-size banks are leaving the credit card business – Mellon Bank was the latest to announce plans to sell its portfolio last week – and credit cards are now seen as a business requiring large scale.

Both companies are "mono-line" credit card issuers, operating without branches, and are spin-offs from larger institutions. Both depend on sophisticated "data-base mining" to target customers with specific offers through direct mail. And both have plans for international expansion.

Through the use of databases, customers will be targeted with low interest rates or with points towards loyalty schemes, depending on what will most appeal to them.

Those recently made bankrupt can take on "secured" credit cards, by offering some security.

Nigel Morris, president of Capital One, is bullish about the continued prospects. "We believe that it was an accident of nature that banks did credit cards, because the credit card business is fundamentally different from banking," he said.

"It's about information management and making millions of loans to people you'll never see, and designing innovative products to meet their specific needs through customisation."

Providian's results are due today, but it has already forecast growth of 50 per cent in earnings for 1999, following compounded growth of 42 per cent over the last decade. This is mostly based on increased revenues.

Capital One has raised its number of accounts by 40 per cent for four years in succession, and earlier this week announced 1998 earnings of $275.2m, up from $189.4m in 1997.

Capital One launched an operation in the UK last year, and is looking at opportunities in other countries. Providian is due to follow later this year, and is considering moves into Australia and South Africa.

The rise of mono-line credit card issuers has already transformed US banking in the 1990s.

It was led by MBNA, which specialises in "affinity cards" launched jointly with organisations such as charities and universities, and by First USA, now a part of Bank One, which is best known for "co-branding" with companies such as airlines.

By offering additional benefits, and using their partners' marketing systems, the card issuers were able to take market share away from banks.

Both Capital One and Providian were too late to take part in co-branding. Shailesh Mehta, chief executive of Providian, said: "We missed the boat on co-branding. But a 'me too' product isn't going to give you an advantage over the competition. We have to do things differently.

"We decided to focus on where we could be good, which is as a better risk manager," he added.

Co-branding tends to take card issuers into the wealthier segments of the market, where customers pay off their bills on time but will consider paying a fee to be part of a "frequent flier" programme.

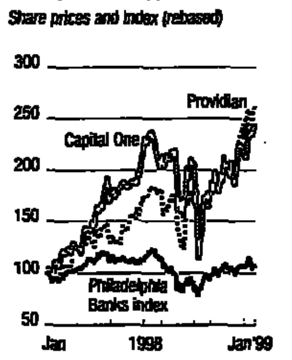
Providian – like Capital One – claims that targeted marketing allows it to gain market share when the larger players, with less sophisticated information, are competing on price.

Mr Mehta said: "Many companies have lowered their price, but at the same time, in order to offset loss of margins, they've raised the credit bar. So they've not been able to serve the entire spectrum.

"That gives us a much larger market."

US credit card issuers

Share prices and index (rebased)



Source: Datastream/ICV

TI sees profit rise after chip arm sale

By Roger Taylor in San Francisco and Avi Machlis in Jerusalem

Texas Instruments, the semiconductor manufacturer, yesterday reported a sharp improvement in profitability following the sale of its memory chip division last year. Fourth quarter earnings per share, excluding one-time charges, rose to 59 cents compared with 41 cents in the third quarter and 55 cents a year ago. Wall Street had been expecting 54 cents.

The improved performance stems from TI's decision to focus on the more profitable market for DSP and analog chips, essential in a wide range of devices such as wireless phones, computers and consumer electronics.

The company said its operating margins jumped to 16 per cent from 9.6 per cent, following the sale of its loss-making memory chip business in the third quarter. Revenues fell $435m from the year earlier quarter to $1.9bn but net income was up 8 per cent at $237m. Including charges, net income was $189m or 47 cents per share.

TI shares rose 10 per cent to $102¼ by midday yesterday. The shares have now more than doubled in value from their low of just under $50 in July.

The company said it expected to see modest revenue growth through 1999, helped by continued improvement in semiconductor markets. In particular, it forecast strong demand for wireless phones and hard disk drive circuits.

The company also said yesterday it agreed to acquire Butterfly VLSI, an Israeli start-up which specialises in short distance wireless technologies, for $50m in cash.

TI will use Butterfly's technology in applications that include wireless internet access from a PC or laptop and wireless-connections from computers to peripheral devices such as printers.

NEWS DIGEST

TELECOMMUNICATIONS

SBC Communications buys Comcast cellular unit

The reshaping of the US wireless telecommunications business continued yesterday as SBC Communications, the acquisitive Texas-based local telephone company, agreed to pay $400m for the cellular operations of Comcast. It also agreed to assume $1.3bn of the cable television company's debt.

The deal will bring SBC wireless operations in New Jersey, Delaware and the Philadelphia region, adding to its existing properties in the north-east and continuing its ambitious drive to develop a national presence.

So called "fill-in" acquisitions like this have become common as the largest wireless carriers have sought to develop national coverage to compete with existing national carriers like AT&T.

SBC's planned acquisition of Ameritech, the Baby Bell that serves much of the Midwest, is likely to prompt the disposal of some wireless operations, however. The two companies have already said they will sell businesses in areas where they have overlapping licences. Also, the different wireless technology standards used by the two companies could prevent them from integrating their operations, raising the prospect of further disposals.
Richard Waters, New York

PHARMACEUTICALS

Bristol Myers Squibb rises 13%

Bristol Myers Squibb, the US-based pharmaceuticals company, yesterday reported a 13 per cent rise in earnings to $908m in the fourth quarter, excluding a special pre-tax charge of $800m. The pre-tax charge relates to previously announced litigation costs related to breast implant and prescription drug pricing cases. Earnings per share of 90 cents a share, up 15 per cent, were in line with analysts' estimates. The company reported record sales for the quarter of $4.9bn, up 10 per cent.
Tracy Corrigan, New York

UTILITIES

Enron in Mexican water buy

Enron extended its reach further into the global water business yesterday when it agreed to acquire an interest and jointly own a water and waste water operation in Cancun, Mexico. The deal to supply water and waste water treatment services in one of Mexico's top tourist destinations gives Enron a foothold in the growing Mexican and Latin American markets as it tries to establish itself as one of the few global groups in the industry. Last year the company bought Wessex Water, the UK utility, for $2.8bn.

Enron is to buy a 49.9 per cent stake from its partner Grupo Mexicano de Desarollo, a big Mexican construction company, for $13.5m in cash plus the assumption of $25m in financing and operational commitment. They will jointly own the concession under a 30-year agreement.
Hillary Durgin, Houston

Sylvan plans acquisitions

By John Authers in New York

Sylvan Learning Systems, one of the largest private-sector education providers in the US, yesterday announced a plan to build an international network of universities by acquisition.

It has already acquired an option on a controlling stake in Universidad Europea de Madrid (UEM), a Spanish "for profit" university, and recruited Joseph Duffey, currently the director of the US Information Agency, to manage the venture.

Under the plan, Sylvan has an exclusive option to buy 54 per cent of the shares in UEM for approximately $51m. This would include the assumption of $21.5m in debt.

UEM is the largest private-sector university in Spain, with 7,200 students and 480 faculty. It had total revenues last year of $49m, and earnings before interest, taxes and depreciation of $15.5m. Sylvan intends to add further universities over time to form a network.

The plan is to own universities in at least 10 countries. This would mostly be done by acquisition but the company will also consider starting new universities on greenfield sites. Borrowing from experience in the US, where private healthcare companies have bought non-profit hospitals, it might also consider privatising and then acquiring existing public-sector universities.

Douglas Becker, Sylvan co-chief executive, said the company had chosen to make its first acquisition in Spain because of its growth and stability and "ability to serve as a bridge to both Europe and Latin America".

The plan is an ambitious attempt to introduce the concept of private-sector profit-making higher education, which has grown swiftly in the past few years, to Europe and Latin America.

Higher education has expanded rapidly in Europe in recent years – most recently in the UK, where the proportion of students going to universities doubled from 1982 and 1992 – but Sylvan believes there is still significant unsatisfied demand. This is shown by the fact that 1.3m students are currently studying in higher education outside their home countries.

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CARMAKING DM450m INVESTMENT IS AIMED AT ADDING PRODUCTION OF POLO MARQUE TO THAT OF GOLF

VW to double capacity in Slovakia

By Kevin Done, East Europe Correspondent

Volkswagen of Germany, Europe's leading carmaker, is expanding its production capacity in eastern Europe.

The group is developing its operations in Bratislava, the Slovak capital, into a mainstream car assembly plant for the VW brand in Europe with the investment of around DM450m (€230m, $267m) to more than double capacity to between 200,000 and 250,000 cars a year.

VW has started building assembly facilities in Bratislava including a paint shop with a 500-a-day capacity, body welding and final assembly lines and it will add new products later this year.

In the summer it will begin production of the VW Polo small car in addition to the existing output of its VW Golf and Bora family cars.

The VW plant at Pamplona, Spain, will remain its main production centre for the Polo, but the German carmaker has decided to make Bratislava its second Polo production site in Europe by moving additional Polo output from its headquarters plant in Wolfsburg, Germany, to Slovakia.

Volkswagen has previously used the Bratislava plant chiefly as the location for producing the more labour intensive, specialist four-wheel drive versions of its Golf hatchback, for which the Slovak operation is its only production centre worldwide.

The new plan will make the Slovak facility one of VW's mainstream European production locations, taking advantage of much lower labour costs in Slovakia than in Germany.

The paint plant is due to come into operation in October. Combined with existing facilities, the Bratislava plant will have a capacity to produce 200,000 cars a year on a pattern of working three shifts a day, five days a week or up to 250,000 cars a year with four shifts and weekend working.

The workforce in Bratislava will be raised to around 6,500 by the end of this year from more than 5,000 at present.

Around 1,500 workers were added last year as VW raised production to 125,000 from only 40,000 in 1997.

The existing facilities have a capacity in body welding and painting for producing only 75,000 cars a year, but VW raised output last year in an interim emergency measure to raise European output by shipping around 50,000 already painted car bodies from west Europe to Bratislava for final assembly.

VW also assembles gearboxes in Bratislava and it plans to raise output to 360,000 in 1999 from 328,000 last year and 280,000 in 1997. The plant machines gearbox components and output rose last year to 8m from 6m a year earlier.

Fiat well placed to profit from Russian recovery

The Italian group remains optimistic about prospects for its joint venture with Gaz, reports **Anthony Robinson**

When foreign companies began to reassess their projects in Russia in the aftermath of the financial melt-down, it came as a relief to Moscow that Fiat, at least, was prepared to make a gesture of faith.

No one was more relieved than Yevgeny Primakov, the Russian prime minister, when Gianni Agnelli, the Italian carmaker's honorary chairman and global troubleshooter, flew to Moscow to assure him that Fiat's $840m joint venture with Russia's Gaz auto company would go ahead.

The timing and phasing of the investment have been modified but the commitment remains at a time when Ford has postponed plans for an assembly plant in St Petersburg and Renault is agonising over plans to assemble its Mégane model at Moscow's Zil plant.

Fiat's plan to produce 150,000 Marea, Siena and Palio "world cars" annually at a new greenfield factory is precisely the kind of foreign direct investment in the "real economy" sought by Mr Primakov and Yuri Maslyukov, the former Soviet planning chief now in charge of economic policy.

Cancellation or indefinite delay would have dealt a heavy blow to morale in a country reeling from the collapse of its banking system and facing two to three years of falling economic output.

The decision to build the new plant alongside the existing Gaz light van and car plant at Nizhny Novgorod on the Volga river east of Moscow was drawn up before the crisis.

"It was our choice to come to Russia and we still take the view that Fiat can play a constructive and profitable role in helping this country rebuild its industrial base, as we have done elsewhere around the world," Fiat says.

While the commitment remains, the depth of the crisis and the 60 per cent devaluation of the rouble against the dollar since August has forced Fiat to renegotiate key aspects of the original plan.

While Fiat is still committed to investing $840m over five years, the bulk of its investment will now take place towards the end of the period. Investment will in the meantime be limited to a relatively small-scale assembly operation of up to 20,000 cars a year.

The Fiat/Gaz project will be financed in part by the European Bank for Reconstruction and Development, which has a 20 per cent stake in the venture.

Women workers check a Fiat 124 car in the Fiat factory on the Volga river in the Soviet Union in 1974 AP

Fiat, which has a 40 per cent stake, will contribute its know-how and machine tools and equipment, mostly made by Fiat subsidiaries.

Its main partner, Gaz, the Gorky Avtomobilny Zavod, has a similar stake and will contribute land and infrastructure, labour and the distribution network set up to market its revamped 30-year-old Volga model cars and the new Gazelle light truck range.

The Gazelle, developed by Nikolai Pugin, the plant's veteran Soviet-era director, is one of the few post-Soviet industrial success stories.

The cheap, rugged Ford Transit look-alike was just what Russia's new class of small traders and shopkeepers needed to supply the vastly expanded post-Soviet retail system.

The light trucks kept Gaz and its ageing Volga saloon car complex afloat while rival Avtovaz, at the 1960s Fiat-built Togliatti complex on the Volga river that produces Ladas and Zhigulis, sank deeper into debt.

The Togliatti plant is a reminder that this is not the first time Russia has relied on Fiat to revitalise this key industrial sector.

In 1966 Mr Agnelli's predecessor, Vittorio Valletta, signed the Soviet Union's biggest-ever turnkey contract. Four years later the first modified Fiat 124 cars rolled off the assembly lines.

Since the collapse of the Soviet system, cash-paying Russian customers – those with a real choice – have tended to buy second-hand imported cars in preference to clunky, poorly assembled Ladas.

Now imports have become prohibitively expensive, offering Avtovaz a breathing space.

With the cheapest Lada model priced at $3,000 at the factory gate, the Togliatti complex may be able to struggle on into the 21st century. But it too has been forced to cut output as Russian consumers hunker down into survival mode.

Fiat, meanwhile, is relying on its long experience of operating in emerging economies. It strongly believes that when the Russian economy does finally pick up, the entrepreneurs and aspirant middle class currently driving Gazelles will be wealthy enough to buy Fiat's Russian-made "world cars".

Iris.Bus forecasts sales of €1.12bn

By John Griffiths

Iveco, the commercial vehicles arm of Fiat of Italy, and Renault of France, said yesterday their new 50-50 bus joint venture would produce some 8,300 buses and chassis this year.

To be known as Iris.Bus, the venture is the result of the pooling of the two companies' bus and coach manufacturing and distribution operations.

The company said it had chosen neutral territory in Barcelona for its operating headquarters, with registered offices in Madrid.

It confirmed that Iris.Bus would be headed by Elios Pascual as chief executive. Mr Pascual is a Renault veteran who once ran the French group's Mack Trucks subsidiary in the US and until now has been deputy director general of Renault VI.

Enrico Valente is to be chief operating officer.

Iveco and Renault will provide an equal number of members to the board, which will be chaired by Saverio Gaboardi.

For its first year of business Iris is forecasting consolidated sales of €1.12bn ($1.3bn), with a projected European bus and coach market share of 27 per cent, second only to DaimlerChrysler, the world's biggest truck and bus group.

The company employs 6,200 people in Italy, France, Spain, Germany, the UK and Czech Republic.

NETWORK SECURITY SOFTWARE

Check Point posts 77% rise for year

By Avi Machlis in Jerusalem

Check Point Software Technologies, the Israeli manufacturer of network security software, yesterday said net income soared 77 per cent during 1998 as the company consolidated its position as world leader in its niche.

But despite record results, Check Point shares on Nasdaq yesterday plunged $7⅞, or nearly 14 per cent, to $47⅞ in early trading.

Analysts, who said fourth-quarter earnings were in line with expectations, were not immediately sure why the stock reacted so sharply. Check Point shares have bounced back from a low of $13 last October.

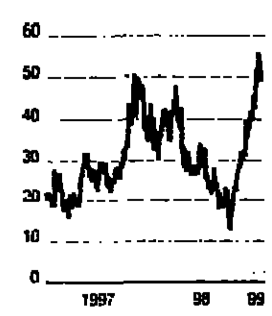
Check Point is Israel's flagship software company and is one of only a few Israeli software firms to successfully build a global sales and marketing network.

Its annual net income jumped from $39.5m, or $1.04 a share, in 1997 to $69.8m, or $1.81, in 1998. Revenues climbed 64 per cent from $86m to $141.9m over the same period.

"Despite continued attempts by competitors to imitate our strategy, Check Point broadened its lead over the competition in all aspects of our business: market position, technology and industry partnerships," said Gil Shwed, chief executive.

Check Point Software

Share price ($)



Source: Datastream/ICV

In the fourth quarter, net income climbed 34 per cent from $13.8m, or 36 cents a share, to $18.6m, or 47 cents, as expected. Revenues rose 32 per cent from $30.5m to $40.5m.

"Check Point should be able to maintain this kind of growth through 1999," said Eric Zimets, analyst at Hambrecht & Quist, the US investment bank.

"Growth drivers that will be important are in the managed service provider arena – they will sell their technology to telecoms companies and internet service providers, and will continue expanding into virtual private networks [VPNs]."

International Data Corporation, the market research firm, says Check Point has captured 64 per cent of the European market for VPNs.

BOL plans February start-up

BOL International, the European online bookselling operation owned by German media giant Bertelsmann, said yesterday it would launch operations in February, Reuters reports from Baar, Switzerland.

BOL – short for Bertelsmann Online and based in Switzerland – said it would establish operations in Germany and France next month, in England and the Netherlands in the spring and in Spain by the end of the year.

Business in France is to be operated as a joint venture with the Havas media group.

BOL spokesman Christof Erhartsaid the companies had signed a memorandum of understanding and were in talks to hammer out final details. He said that BOL was pursuing a similar deal in Spain with Grupo Planeta.

All other national services are to be operated as 100 per cent units of Bertelsmann.

He declined to provide a sales forecast. BOL acquired 50 per cent of US internet bookseller barnesandnoble.com last October.

Barnesandnoble.com will continue to operate exclusively in the US and Canada.

UK p/e ratios reach all-time high

By Philip Coggan, Markets Editor

The UK stock market has moved to its highest valuation level in terms of corporate profits in the wake of the recent rally in share prices.

The price-earnings ratio on the FTSE Non-Financials index (the benchmark for which records go back furthest) passed 24 for the first time on Monday and closed at that figure last night.

The previous high was 23, recorded in 1969, with 21 achieved just before the crash of October 1987.

Investors are willing to pay such a high multiple of profits to buy shares in spite of the gloomy outlook for 1999.

Many are forecasting that the UK economy is close to recession, and Richard Kersley, the Credit Suisse First Boston strategist, predicts zero corporate earnings growth this year.

Normally, the market and individual shares command a high price-earnings ratio when profit prospects are buoyant. But at present, investors are being pushed into shares by the lack of an attractive alternative.

UK government bond (gilt) yields are just above 4 per cent, about their lowest levels for 40 years, and the rate on deposits (cash) is 6 per cent and expected to fall further.

Institutional investors are moving spare cash into the market and, with personal equity plans to be abolished in April, private investors may follow suit.

"If there is ever a case when liquidity could cause markets to overshoot, this is it," said Mr Kersley.

But the overall market rating is misleading. Stocks have become sharply divided between some highly-rated sectors and the rest.

The telecommunications and pharmaceuticals sectors both trade on a p/e ratio of more than 50, thanks to their strong growth prospects, while the cyclical construction industry and paper and packaging industries have a rating of less than 10.

"The FTSE 100 index [which closed up 78 at 6,105.6 yesterday] has been driven up by some heavily rated sectors but, if you look at the SmallCap stocks, the position is quite different," said Richard Jeffrey, Charterhouse group economist.

Smaller companies have suffered for some time from the strong pound and slowing UK economy. Having peaked at nearly 29 in March last year, the p/e on the small Cap index has dropped below 16.

Slowdown in trading at First Leisure

By Maggie Urry

First Leisure shares fell by more than 10 per cent yesterday, after the nightclubs, health clubs and ten-pin bowling group where Michael Grade is chief executive, reported a sharp slowdown in trade.

The shares closed down 22p at 192½p.

Profits for the year to October 31 were obscured by a raft of accounting changes, but the second half had suffered from a softening of demand.

So far in the current year, the nightclubs and bars had suffered a 7 per cent fall in trade, while the family entertainment division turnover was down 2 per cent.

Only the health clubs trade was still showing growth.

Profits before tax and after a number of exceptional items were £24.3m, up from a pro-forma figure of £8.1m.

Profits from continuing operations and after "trading" exceptionals fell from a pro forma £34.5m to £33.3m.

Mr Grade, who took executive control in June 1997, said: "There is a consumer downturn but it is nothing like as severe as in the early nineties.

"The downturn continues, it is very hard to read the trend."

Worst affected were the group's nightclubs, which attract students and people in their twenties.

But Mr Grade said, "in our experience the dancing habit has always bounced back from recession".

Mr Grade said remedial action was under way at the nightclubs, which had booked the Chippendales, the group of male dancers, to attract more customers to mid-week sessions.

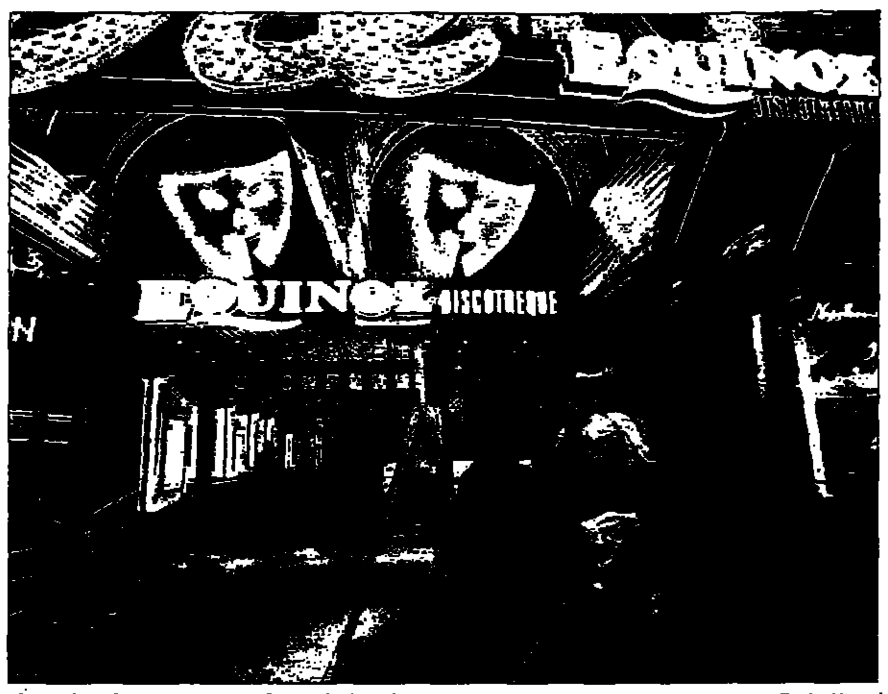
During the year, the group sold its bingo and resorts divisions, the latter including the Blackpool Tower.

Mr Grade said, "notwithstanding current trading conditions, the group is a much better focused, better founded company that it was a year and a half ago."

Graham Coles, finance director, said that the group had applied a number of new accounting standards before they become compulsory.

This had caused a one-off £17.4m charge for backlog depreciation on freehold and long leasehold buildings, and a £9.2m charge for impairment of value of properties.

Further, the expected introduction of VAT on health club memberships on April 1, persuaded the group that £2.7m of its income was exceptional, and not sustainable. In the past, Mr Coles said, the company had "shared the benefit" with its customers of the VAT-free status.



First Leisure's Equinox Disco, in London's Leicester Square — David Ahmed

CGU to transfer business to Lloyd's

By Andrew Bolger, Insurance Correspondent

The recovering reputation of the Lloyd's of London insurance market received a boost yesterday when CGU, the UK's largest composite insurer, said it would move all its marine underwriting business to Lloyd's.

Cees Schrauwers, managing director of CGU Insurance, said Lloyd's syndicates were writing more profitable business in the difficult marine insurance business than London's company market, which includes most of the world's top insurers and reinsurers. A strategic review by CGU had concluded Lloyd's was benefiting from its reformed business practices and regulatory regime.

"Lloyd's has re-established itself as the centre of gravity of the London market," he said. "That's where we want to be."

After coming close to collapse in the early 1980s and early 1990s through a combination of financial scandal and unexpectedly high pollution and asbestos claims, Lloyd's has brought in corporate capital, which this year will account for more than 70 per cent of the market's overall capacity.

Earlier this week Lloyd's received another vote of confidence, when Marsh & McLennan Capital, part of the US-based insurance and reinsurance broking group, said it had advised investors forming a Bermuda-based company to capitalise a new Lloyd's agency and syndicate to be the underwriting basis for a global insurance and reinsurance group.

The new company, Danish Reinsurance, will apply to run an integrated Lloyd's corporate capital vehicle with an intended initial capacity of $250m.

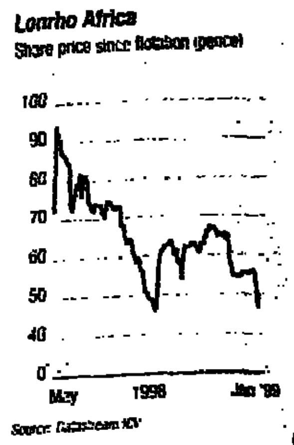
Nicholas Johnson, an analyst with Raphael Zorn Hemsley, the stockbroker said: "These moves are a big corporate thumbs-up for Lloyd's. The costs associated with being a member of Lloyd's have come down over the last couple of years."

CGU expects to transfer about £100m ($165m) of annual marine premiums, net of reinsurance and brokerage, to a wholly CGU-capitalised Lloyd's syndicate managed by Marlborough Underwriting Agency Ltd (MUAL). CGU already own 51 per cent MUAL and will lift its stake to 60 per cent.

COMMENT

Lonrho Africa

How many companies can blame El Niño, the Nairobi bombing and the fighting in Congo for their profit warnings? Lonrho Africa's first annual results since last May's demerger show that cash is flooding out of the company: before financing, the net outflow was £63.7m. Without the £48m silver spoon it received from Lonrho, the balance sheet would look scary. The company, under pressure from a £19m annual interest bill on its £99m debt, could become a forced seller of assets – ironic given its former aversion to break-ups. Why, then, is it paying a dividend despite the losses? Probably because it realises it needs to appease investors. Blakeney Management, its 10 per cent shareholder, failed to shake up the board last year. These results should play into its hands.



Dividends

While the UK stock market's price/earnings ratio hit a new high yesterday, manufacturers' share prices continue to slide. In the engineering sector alone, 23 companies now offer double-digit dividend yields – which would normally presage a dividend cut. The list includes British Steel, a £2bn company that is paying £200m a year to shareholders, and the FTSE 250 members Morgan Crucible and Glynwed. That these companies can still fund their pay-outs comfortably is fortunate, as investors still find dividend cuts unpalatable. But how should they respond?

One option is share buy-backs – taking on debt at perhaps 6¼ per cent to remove some of that expensive equity. But it would require huge repurchase programmes to make much long-term difference. A more drastic alternative, already being researched by some, would be to take the companies private. The option should not be dismissed on the grounds of corporate vanity and conflicts of interest. British Steel could, in theory, take itself private for the equivalent of 1[illegible] years' dividends. The volatility of its profits makes that unlikely.

Smaller engineers, though, should have fewer qualms, given that high yields have done little to support their share prices. If they do not respond, it will be no surprise if bidders do. As Siebe found with BTR, there are obvious advantages for corporate buyers with low yields which can take over a high-yielding target and cut its payments.

Zergo shares rise on further deals

By Susanna Voyle

Shares in Zergo rose strongly for the second day running yesterday, after the internet security specialist announced another strategic alliance and more contracts.

The news that it was linking with KPMG consultants to help clients make their electronic commerce projects secure, drove the shares up 65p to 767½p, a rise of more than 9 per cent.

On Tuesday the shares – which were listed in September 1995 at 140p – rose 162½p to 702½p, after Zergo announced a similar deal with PwC, the professional services firm, and a licensing deal with Intel, the US semiconductor group.

Zergo – which plans to change its name to Baltimore after its recent acquisition of the Irish group of that name – specialises in encryption and digital signatures to secure e-commerce. Zergo moved from Aim to the London main market last July.

The new contracts are with nine commercial certificate authorities – organisations that oversee and authenticate internet transactions for companies.

The specialist public key infrastructure technology offered by Zergo and its rivals, most of which are based in the US, is seen as crucial for the expansion of e-commerce, because it will increase user confidence.

Lonrho Africa hit by currency swings

By Charles Pretzlik

A cocktail of political unrest, currency devaluations and plunging cotton prices forced Lonrho Africa to report a loss in the year to September 30.

In its first annual results since its demerger from Lonrho, the conglomerate said it made a pre-tax loss of £5.7m ($9.4m), compared with a £22.6m profit last time. The company warned on profits in October.

The figures come one month after Lonrho Africa narrowly defeated an attempt by Blakeney Management, the fund manager that controls a 10.1 per cent stake, to replace three of the existing directors with its own nominees.

Analysts believe Lonrho Africa could come under renewed pressure from Blakeney's chairman, Miles Morland. Michael Coulson, an analyst at Paribas, said: "Looking at these figures and at what the company thinks it's worth, I don't think Morland is going away. He's still in the game."

Blakeney would only say: "The numbers speak for themselves."

Mark Newman, chief executive, said: "Although we expect and anticipate volatile and difficult trading in Africa, the last year has been particularly severe and the results must be seen in the context of the adverse economic, political and climatic factors affecting our operations."

Lonrho Africa operates in 14 sub-Saharan countries and has businesses which range from pig farming to car dealerships.

Mr Newman said that currency devaluations of up to 63 per cent had had a severe impact on the results, as did unusually harsh weather.

Cotton lint prices dropped about 30 per cent because of falling demand in East Asia and substitution by synthetic fabrics.

Lonrho Africa's profits were depressed by a £7m exceptional charge to pay for restructuring, especially in its motors and textiles businesses.

It also made a £2.6m profit on the sale of fixed assets.

Group turnover, including joint ventures, fell 27 per cent to £425m and operating profits plunged 70 per cent to £12.9m.

Mr Newman said the group would concentrate on agribusiness and distribution. He added businesses would be sold unless existing activities achieve a 20 per cent return on capital and new investments must achieve a 25 per cent return.

Analysts expect the group's hotels, which include the Norfolk Hotel in Nairobi, to be among the assets sold.

The group has recommended a 1.9p final dividend, making a total of 2.9p for the year. The shares rose 3¼p, or 7 per cent, to 50p, compared to 95p at the time of its demerger.

Chesapeake launches offer for Field

By Virginia Marsh

Chesapeake of the US yesterday launched a recommended £194m ($320m) cash offer for Field Group in a further sign of consolidation in the UK packaging sector.

The US group said it would use Field to spearhead its expansion in Europe as part of a drive to become a global packaging supplier.

"We are very keen on the strategy that Field has developed – to expand on the Continent and build a base to serve multinational clients," said Thomas Johnson, Chesapeake president.

The move follows last year's sale of Waddington's cartons business to Low & Bonar and Rexam's recent decisions to dispose of its industrial packaging operations and bid for PLM, a Swedish packing group.

Chesapeake, based in Richmond, Virginia, is offering 320p for each Field share and will also assume its debt of about £30m. The offer is pitched at a 41 per cent premium to Field's share price on January 8, the day before the group said it had received an approach. However, the bid is well below the once highly-rated shares' peak of 429p two years ago. Yesterday, they closed up 23p at 316½p.

The UK group, which produces packaging mainly for the tobacco, alcoholic drinks, food and pharmaceutical industries, had to warn on profits last autumn partly because of the Asian economic downturn.

Keith Gilchrist, Field's chief executive who is staying on, said the fall in the share price had frustrated its ambitions and that it welcomed the opportunity to be part of a larger organisation.

Last year Chesapeake's income before tax and exceptionals was $55.8m, while sales were $950m. Field made pre-tax profits of £24.1m on sales of £245m in the year to April 4 1998 and is forecast to make £21m this year.

At mid-session in New York, Chesapeake shares were down $$\frac{5}{16}$$ at $36.

Chesapeake was advised by DLJ; Field by ING Barings.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adscene	6 mths to Nov 28	26.2	(26.9)	31.4♠	(2.87)	19.47L	(6.45)	3.5	Apr 7	3.5	-	8.5
Alldays	Yr to Nov 1	698	(638)	10.3♠	(21.5)	18.2	(33.9)	6	Mar 12	13.1	12	18.8
Bickerton ф	6 mths to Oct 31	17.2	(12.3)	0.1	(0.04)	0.392	(0.103)	-	-	-	-	0.5
Colefax & Fowler	6 mths to Oct 31	31.2	(24.1)	1.71	(1.41)	4.23†	(3.91)	1.17	Apr 8	1.1	-	2.8
Coral	6 mths to Oct 31	6.65	(5.78)	1.25	(0.569)	4.2	(1.99)	0.875	Feb 22	0.75	-	2.25
Ensor	6 mths to Sept 30	8.15	(8.36)	0.41	(0.48)	1.2	(1.2)	0.25	Feb 23	0.25	-	0.6
First Leisure	Yr to Oct 31 ✻	228.6	(209.2)	24.3♠	(8.1♠)	10.62	(2.52L)	6.68	-	6.36	9.53	9
Gooch & Housego ф	Yr to Sept 30	7.1	(8.7)	1.81▼	(1.58▼)	7.5	(7.4)	1.2	Feb 26	-	1.7	-
Industrial Control	6 mths to Nov 30	41.2	(37)	3.9♠	(27.4♠)	2.3L	(49.79L)	nil	-	nil	-	nil
Inter Link Foods ф	6 mths to Oct 31	4.44	(4.02)	0.51▼	(0.2)	10.5†	(5)	-	-	-	-	-
Lonrho Africa	Yr to Sept 30	425.1	(583)	5.7L♠	(22.6♠)	7.2L	(6.6)	2.9	Apr 6	-	2.9	-
Shani	Yr to Oct 31	29	(29.6)	1.25	(1.36♠)	5.8	(6.4)	3	Apr 7	3	5.37	5.37

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberforth Split	6 mths to Dec 31	321.9	(357.3)	2	(1.85)	6.45	(5.99)	2.5♣	Apr 6	2.45	-	12.25
Commodities Trust	Yr to Oct 31	89.34	(144.79)	0.957	(0.431)	55.4L	(8.3)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ▼After exceptional credit. †On increased capital. фAim stock. ✻Comparatives pro forma. ♣Second interim, making 5p so far.

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MANAGEMENT FOREIGN ASSIGNMENTS

A counter to culture shock

Alison Maitland reviews a book that advises executives on how best to adapt to a new business environment

It was a frank and shocking admission. The oil company would not let executives take familiarisation trips before starting a foreign assignment. "If the manager knew where he was going, he would never take the job," confessed the personnel manager.

That suicidal policy illustrates why Elisabeth Marx, a German-born psychologist who coaches international executives, wrote *Breaking Through Culture Shock*, to be published next month.

The oil company case cited in her book may be extreme, but many organisations do not prepare managers fully for working abroad or handle them well while on assignment, she says. Asked what long-distance support they offer managers, some companies simply reply: "They have our fax and phone number."

Ms Marx, who has coped with culture shock as a PhD student at Oxford University and then as a lecturer at the National University of Singapore, says: "It seemed to me quite astonishing how little knowledge there is about how to help international managers prepare."

Now a director of Norman Broadbent International, the executive search firm, Ms Marx says managers with international experience not only have more challenging careers but also tend to command higher salaries.

Yet at least one in four US managers and one in seven UK managers are estimated to fail on international assignments. Learning how to handle culture shock is essential. The book's main targets are individuals whom Ms Marx believes need to be more assertive in managing their careers and asking for help.

The theme is upbeat. Most managers can be effective abroad if they work hard on their adaptability, she argues. Understanding how other business cultures think is not enough. International managers must deal with their emotions and develop their social skills to be successful.

Adaption is described as a process that starts with excitement and curiosity – the honeymoon phase – and moves back and forth between feelings of anxiety and well-being before arriving at full cultural adjustment.

Trying to overcome culture shock by clinging to national prejudices or by "going native" are both unhealthy, says Ms Marx. The ideal is to reach a compromise between preserving our own identity and being open to alternative ways of doing business. The most self-aware executives appear to experience the most intense culture shock and also to adapt best.

The book investigates cultural differences, describing the German, French, British, American and Chinese approaches to business. In Germany long working hours are a sign that someone is not clever enough to finish within normal hours. Humour is not welcome in business.

In France, lunches of two to three hours are normal but business may be discussed only over dessert. The Chinese are extremely flexible and are able to juggle demands on their time. In the US, salaries help define social status and there is no taboo about asking people how much they earn.

British managers "are very flexible and can deal with adversity very well", Ms Marx says. Americans, often having less experience of other cultures in their youth than Europeans, assume that the US business culture is the right one. "But to be fair to the Americans, a lot of international businesses try to adopt the American style."

She pinpoints potential areas of friction. Managers from the US or UK may find it hard to adapt to the political and hierarchical business structures in France. Germans, used to structure and predictability, may be put out by the fluid, agenda-less approach found in Brazil.

What qualities should companies look for in their international managers? Ms Marx highlights curiosity, flexibility, communication skills, assertiveness and team-working, stress resistance and ' self-reliance.

She has rarely ruled out international candidates as unsuitable. But she says "Type A" personalities may fail in certain regions.

These competitive, dedicated high-achievers may be an asset in individualistic societies such as the US and UK. But their impatience and intolerance can be a liability in consensus-driven cultures in Asia.

Particularly instructive are the many case studies and interviews. Peter Job, chief executive of Reuters, advises managers to balance their career between the corporate centre and overseas work so they have a strong understanding of both.

He says a good test of ability is to do business in Germany or Japan, which thrive on long-term relationships and quality. "However, the biggest test is the US... Anybody can go in there, especially if they have a new idea, but the pressure is intolerable."

Some of Ms Marx's advice seems obvious, and there are instances of repetition; but this is an accessible and practical self-help book.

Breaking Through Culture Shock by Elisabeth Marx, published by Nicholas Brealey Publishing at £18, is available from FT Bookshop at +44 181 324 5511 Free p&p in UK

Marx: clinging to national prejudices and 'going native' are both unhealthy — David Ahmed

TECHNOLOGY WORTH WATCHING

New light on molecular structures

Researchers at the University of Rochester in the US have succeeded in "growing" a photonic crystal – an optical device that manipulates light – in a rare example of molecules building themselves into useful microstructures with little human intervention.

The process begins with polymer molecules in solution, which self-organise into hollow spheres. Billions of these spheres then come together in an ordered way to form photonic crystals which are about a square centimetre in area and less than the thickness of a human hair.

The crystal's ability to manipulate light depends on the size of the spheres and structures they create, which can be altered chemically. The research was reported in the journal Science.

University of Rochester: US, tel 716 275 7954; http://www.rochester.edu/

On the grapevine

Computer forecasting techniques are helping grape growers in California reduce their reliance on fungicides.

The computer program, created by researchers at the University of California, is designed to tackle powdery mildew, one of the most persistent problems faced by wine growers.

The spread of the fungus, which reduces the growth of the plant and the quality of the fruit, depends on temperature and moisture. The researchers, who are members of the American Phytopathological Society, used these parameters to develop a computerised forecasting model to help growers track the disease.

By predicting the disease's severity over the following week or two, growers can determine which fungicides will be most effective and when to apply them. The model allows growers to apply two to three fewer fungicide applications than usual during the growing season, for the same or better disease control.

American Phytopathological Society: US, http://www.scisoc.org; e-mail aps@scisoc.org

Sunscreen snag

An active ingredient in many sunscreens damages DNA when exposed to sunlight in a test tube, according to researchers in Northern Ireland. Their findings raise the possibility that if similar damage occurred within skin cells, using sunscreens could increase the risk of skin cancer.

The ingredient is PBSA (2-Phenylbenzimidazole-5-sulfonic Acid), which is used in many sunscreens to absorb harmful ultraviolet B radiation. The process energises the molecules and, in principle, renders them capable of damaging adjacent skin tissue.

The researchers, from Queen's University in Belfast, said it might be safer to replace PBSA with another ultraviolet sunscreen – even though there is no evidence that PBSA actually enters human skin. The research is in the Chemical Research in Toxicology journal, which is published by the American Chemical Society.

American Chemical Society: US, tel 2028724445; http://www.acs.org

Down to earth

More than 10,000 people a year are injured falling off ladders in the UK alone. A Welsh company has designed a stabilising device to reduce the risks. The Surefoot is based on a pair of sandbags which enhance the grip and stability of the ladder, the feet of which are embedded in a plate at the top of the bags. The bags' flexibility allows them to mould and conform to any terrain.

Jacob's Ladder Bases: UK, tel/fax +44 1443 207259.

Vanessa Houlder

INFORMATION TECHNOLOGY COMPUTER MODELLING

A model for treating injured knees

Collaboration between European researchers has brought advances in implant technology, writes **Simon Hadlington**

British, French and German researchers have collaborated to produce what they believe is the most sophisticated three-dimensional computer model of the human knee joint to date.

The model for the first time includes a realistic representation of the menisci – two horseshoe-shaped pieces of cartilage that act as shock absorbers in the knee and which are commonly damaged by sportsmen and women.

The research team hopes the model will be useful in the design of artificial menisci. The project, funded under the European Union's information technology programme, was instigated by Gavin Holt, a lecturer in orthopaedic surgery at Sheffield university in the UK.

Total replacement of the knee joint is the fastest growing orthopaedic procedure, with an increasing number of people in early middle age requiring the operation. "These are sporty people who had injuries during their youth which have made them more prone to arthritis in their 40s and 50s," says Mr Holt.

Because of this trend, future generations of artificial implant will need to last much longer than current ones, designed mainly for elderly patients.

Mr Holt believes computer modelling has a central role to play in the design of better implants. "In most manufacturing processes objects go through computer testing before laboratory testing, but in orthopaedics this has been a missing link," he says.

"You can make an implant and test it in a machine before putting it in a volunteer, but we can't really predict how it is going to perform in that hostile environment."

To develop a realistic 3-D simulation of the knee joint, the Sheffield researchers teamed up with the engineering software designers ESI Group of France and the German National Research Centre for Information Technology.

The team took a specimen of a knee joint and scanned it, using magnetic resonance imaging. These images were fed into a computer to create into three-dimensional digital representation of the structure.

Next, using software developed for crash simulations, the image was subjected to finite element analysis. "This is a technique in which the model is divided into a large number of very small elements," says Justin Penrose, a medical physicist at Sheffield university.

"For a given stress or strain placed on the structure, the computer calculates the effect on each element individually; it can then combine all the elements to determine the overall resultant effect."

By using data from published literature, the researchers were able to simulate the various forces acting upon each element in the knee joint during a variety of situations, including walking and injury in a car crash.

"One of the nice things about the model is that we can import computer designs of artificial implants directly into our system to see how they behave," says Mr Holt.

He added that they hoped to design artificial menisci which could be tested in their computer model to find where 'hotspots' of strain occur.

Further information: e-mail j.m.penrose@sheffield.ac.uk

MANAGEMENT PAY IN JAPAN

Salarymen's fat bonus goes west

Japanese workers find merit-based rewards hard to accept, says **Alexandra Nusbaum**

For most employees a bonus is just that: an extra, over and above the normal pay cheque. It may be expected, but it cannot be counted on and will almost certainly vary according to sales, profits, performance. Not so in Japan: the bonus, like lifetime employment, has been almost guaranteed.

But tough economic conditions are forcing managers to demand increased flexibility. As revenues have continued to decline, companies are cutting bonuses to manage earnings. Fraught negotiations, strikes and job losses have followed.

Traditionally, Japanese companies guaranteed employees a monthly salary as well as a twice-yearly "bonus" equivalent to about five months of pay a year. Now, with Japan suffering from its worst economic recession in post-war history, companies – both domestic and foreign – have begun to move toward performance-based pay. The changes mean progress towards the end of pay by age and seniority and the beginning of a more meritocratic system.

The moves apply particularly to western companies operating in Japan. As long as business was good, companies opening an office or buying a business in Japan were willing to conform to local pay structures. But as the economy has slowed, attempts have been made to cut variable costs. Stringent employment laws make redundanies difficult, so some western corporations have tried to cut bonuses.

"Some firms have cut bonuses to zero. Employees have to accept the cuts because they have nowhere to go," says Shu Furuyama, head of Rengo Tokyo, a local trade union.

Employees might not have other job options, but they are not taking the cuts lightly. One western services company cut bonuses in half. Employees formed a union to negotiate with management. Failing to reach an agreement, it organised a day's strike, during which not a single employee showed up for work. A second strike is scheduled for later this month.

"The employees have seen the numbers, but they just don't get it," says a western executive at the group. "Economic conditions are terrible right now, and until the local office shows a profit, no bonuses can be paid."

One problem with the current system, says the executive, is that it is gives the highest rewards to some of the least effective employees. The largest bonuses go to senior employees, mostly men in their 40s and 50s, who have worked for the company for years. Some "are people who couldn't get a job anywhere else 15 years ago when no one wanted to work for a western firm. Today, they are really third-rate," he says.

Competition to work for a non-Japanese company is now more intense. As a result, the company has recently hired highly skilled graduates who are proving to be more effective than the old-timers.

But local custom permits no reward for excellence nor penalty for mediocrity. This is changing. A number of western managers say they will begin to incorporate performance-based incentives this year. The bonus will remain, albeit at a lower rate, and will be supplemented with an additional amount determined by performance.

"We won't do away with the fixed bonus system, but we will review the level of bonuses and start to pay people based on their performance. This will create a freer, more efficient labour market and will enable us to hire the really good people," says Jeremy Parrish, chief executive of Standard Chartered Bank, Japan.

While foreign groups struggle to build a meritocracy, one Japanese company, Fujitsu, has been paying employees according to performance since 1995. Since then, it has evaluated employees against individual, pre-established goals and provided a bonus based on the evaluation.

Starting this year, the company says the fixed portion of the bonus will depend on company performance. In the past, management and the union have negotiated the bonus level at a yearly meeting called *shunto*, or spring fight.

Japan may find it difficult to accept performance-based pay. But a move to meritocracy could prove an important stimulus for the sort of structural changes needed to help the ailing economy recover.

EURO PRICES

EQUITIES

Microsoft dispels Greenspan gloom

EUROPEAN OVERVIEW

By Bertrand Benoit

European equity markets closed slightly higher yesterday following much stronger than expected results from Microsoft that managed to dispel the relative gloom spread by a cautious statement on asset prices from Alan Greenspan, US Federal Reserve chairman.

The main European bourses settled 1 per cent higher, recouping comparable losses on Tuesday.

The Dow was recovering in afternoon trading from an initial drop prompted by Mr Greenspan's warning to the US House of Representatives that overpriced assets and fragile financial markets were a threat to growth.

European bourses' resilience under the combined weight of the Brazilian currency crisis and Europe's poor economic outlook means that markets are already priced for a recession, according to a research note by Lehman Brothers.

"We believe analysts are too upbeat as far as earnings prospects are concerned," said Ian Scott, the bank's European equity strategist. *"But that does not mean we are bearish because the earnings yield gap with bonds shows that shares are actually attractively valued in relative terms."*

Lehman yesterday published a list of 10 European stocks it expects will outperform the market in 1999.

The list includes some of the strongest performers in yesterday's market, such as France's BNP and Canal+, as well as companies that have fallen from historical highs to more attractive prices.

The FTSE Eurotop 300 index of leading European shares gained 16.37 to 1,229.92, while the FTSE Eurotop 100 closed 39.41 higher at 2,831.64. The FTSE Ebloc 100 index rose 17.82 to 1,040.05.

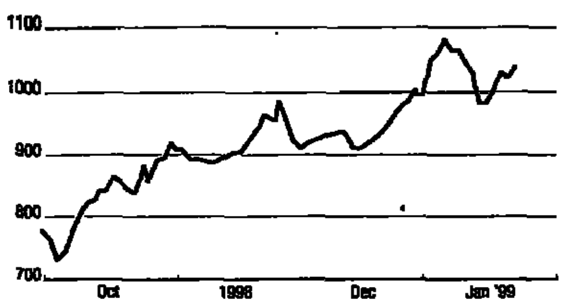
Gains were scattered across the board rather than confined to specific sectors. In the high-tech sector, Misys, the computer service company, rose 40 cents to €6.83, while Siemens rose €6.40, or 11.8 per cent, higher at €61.05 after favourable analyst comments.

France Telecom was one of the main performers, benefiting from the recent surge of interest in telecoms shares. The share ended €6.50, or 8.5 per cent, higher at €82.50.

Vodafone, the market's darling of the week, rose 50 cents to €16.53 as investors continued to buy the stock.

FTSE Ebloc 100

Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Jan 20 National & Regional Markets	Euro index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Euro) €
FTSE Eurotop 300	1229.92	+1.35	+16.37	2.21	0.38	1256.63
FTSE Eurotop 100	2831.64	+1.41	+39.41	2.27	1.65	1015.84
FTSE Ebloc 100	1040.05	+1.74	+17.82	1.98	0.34	1056.08
FTSE EuroMid	1147.17	+0.35	+4.00	2.53	0.48	1180.48
FTSE EuroMid Ebloc	1204.06	+0.54	+6.52	2.32	1.17	1230.74
FTSE EuroMid Ex UK	1227.09	+0.56	+6.81	2.23	0.80	1250.83
FTSE Eurotop 300 Regions						
Eurobloc	1297.15	+1.62	+20.65	1.95	0.56	1325.49
UK	1137.98	+1.36	+15.29	2.86	0.30	1195.16
Europe Ex-Eurobloc	1173.58	+1.06	+12.29	2.51	0.22	1215.75
Europe Ex-UK	1282.65	+1.34	+16.99	2.00	0.43	1307.10
FTSE Eurotop Industry Sectors						
RESOURCES	843.02	+0.59	+4.98	3.40	0.94	882.55
Mining	736.85	+0.34	+2.49	4.68	0.00	752.41
Oil & Gas	815.89	+0.60	+4.90	3.35	0.94	836.41
BASIC INDUSTRIES	1046.59	+1.50	+15.43	2.78	0.15	1089.01
Chemicals	832.84	+2.25	+18.29	2.69	0.16	847.71
Construction & Bld Matls	848.72	−0.52	−4.45	2.72	0.00	866.06
Forestry & Paper	858.31	−0.60	−5.13	3.61	0.00	896.45
GENERAL INDUSTRIALS	1109.96	+2.45	+26.58	2.49	0.13	1133.70
Aerospace & Defence	800.94	+2.34	+18.32	2.01	0.00	812.00
Diversified Industrials	993.26	+0.65	+6.39	2.02	0.00	1015.98
Electronic & Elect Equip	980.36	+3.65	+34.51	1.86	0.00	985.71
Engineering & Machinery	983.45	+3.62	+34.38	4.03	0.45	997.51
CYCLICAL CONS GOODS	1325.40	+2.18	+28.25	2.48	0.00	1361.86
Automobiles	987.19	+2.42	+23.30	2.35	0.00	996.34
Household Goods & Texts	1272.28	+0.87	+10.91	3.26	0.00	1283.14
NON-CYC CONS GOODS	1266.97	−0.02	−0.21	1.44	0.05	1301.88
Beverages	922.60	−0.56	−5.23	2.88	0.00	942.52
Food Producers & Procesrs	938.98	−0.36	−3.44	1.64	0.00	950.02
Health	886.19	−2.10	−19.04	6.57	0.00	898.45
Packaging	732.25	+0.31	+2.29	1.22	0.00	733.16
Personal Care & Hse Prods	1125.83	+1.79	+19.83	0.86	0.00	1135.44
Pharmaceuticals	1175.51	+0.04	+0.52	1.08	0.00	1161.90
Tobacco	1462.98	−0.59	−8.69	3.23	1.42	1492.28
CYCLICAL SERVICES	1249.25	+1.35	+16.65	2.43	0.67	1286.51
Distributors	714.26	−1.67	−12.14	4.13	0.00	722.28
General Retailers	1033.67	+0.53	+5.46	3.03	1.06	1056.06
Leisure Entertmt & Hotels	784.01	−0.16	−1.28	2.57	6.02	800.32
Media & Photography	1108.27	+3.06	+32.93	2.07	0.00	1120.11
Rests, Pubs & Breweries	794.41	+0.63	+5.01	3.48	2.64	820.24
Support Services	1124.95	+0.97	+10.77	1.31	0.00	1136.88
Transport	954.47	+1.58	+14.82	2.58	0.00	972.07
NON-CYCLICAL SERVS	1373.89	+2.36	+31.74	1.45	0.00	1414.09
Food & Drug Retailers	1052.83	−0.17	−1.77	1.95	0.00	1068.91
Telecommunications Servs	1361.89	+2.94	+38.86	1.35	0.00	1382.17
UTILITIES	1553.49	+0.38	+5.90	2.84	3.35	1651.27
Electricity	1210.40	+0.51	+6.20	2.90	3.42	1252.92
Gas Distribution	1224.05	−0.21	−2.54	1.53	1.00	1348.83
Water	946.07	+0.68	+6.36	5.24	0.00	990.79
FINANCIALS	1310.69	+1.61	+20.78	2.50	0.13	1346.60
Banks	893.14	+1.79	+15.67	3.28	0.16	906.00
Insurance	1048.05	+1.21	+12.51	1.33	0.00	1060.69
Life Assurance	1222.98	+2.69	+32.03	1.59	0.00	1238.86
Investment Companies	981.66	−0.46	−4.52	1.83	0.00	1005.23
Real Estate	628.96	−0.76	−4.79	3.80	0.00	645.30
Speciality & Other Fin	878.33	+0.22	+1.91	2.55	0.00	893.00
INFORMATION TECH	892.45	+1.71	+15.01	1.16	0.00	894.57
Information Tech Hardware	972.06	+3.08	+29.07	1.36	0.00	974.37
Software & Computer Serv	711.55	−2.33	−16.95	0.53	0.00	713.24

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■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Apr		97.045	-0.020			0	0
Jun		97.130	-0.040			0	2463
Sep		97.180	-0.045			0	1532
Dec		96.925	-0.015			0	669

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Feb	Mar	Apr	Jun	PUTS Feb	Mar	Apr	Jun
97250	0.005	0.015	0.050	0.080	0.240	0.250	0.170	0.200
97375	0	0.005			0.360	0.365		

Est. vol. total. Calls 0 Puts 0. Previous day's open int., Calls 200 Puts 100

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	2848.0	2849.0	+34.0	2849.0	2826.0	130	5757
Jun		2853.0	+34.0			0	0

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P
Feb	236	59	189	73	165	98	136	108	108	131	85	157	68	187	47	221
Mar	287	107	252	123	220	139	199	161	163	183	129	206	114	236	94	264

Est vol total:- . Prev day's open interest total: 5,458 . Premiums shown are based on settlement prices

OTHER INDICES

	Jan 20	Jan 19	Jan 18	1998/9 High	1998/9 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3522.99	3456.53	3462.85	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3601.36	3515.69	3515.43	3685.36	2419.23	3685.36	2419.23
MSCI Europe	(u)	1208.51	1215.39	1315.55	906.59	1315.55	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
AEROSPACE & DEFENCE					
Brt Aero	6.41	+.3	5.6	20.9	1.5
Smiths Ind	12.37	+.6	3.9	1.4	2.8
Thomson CSF	32.15	-.9	6.4	0.2	1.7
DIVERSIFIED INDUSTRIALS					
Investor A	42.02	+.5	3.3	-	2.7
Investor B	42.75	+.8	4.8	0.2	2.8
[illegible]	9.69	-	4.9	39.8	2.1
HOUSEHOLD & TEXTILES					
Adidas Salom	87.90	+4.8	4.0	0.1	1.0
Christian Di	114.58	-2.5	5.2	0.1	2.2
Electrolux B	14.69	+.4	5.2	1.3	1.9

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
Sanofi	172	-2.9	18.5	0.4	0.6
Schering	110	-.8	7.5	0.1	1.2
SmKl Bchm	12.59	-.1	70.2	10.1	1.3
Synthelabo	205	-9.0	10.4	0.1	0.4
Zeneca	40.39	+1.0	38.4	3.7	1.7

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Jan 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
South Korea	(Won)	1346.76	−14.4100	767 - [illegible]								
Taiwan	(T$)	37.3148	−0.1686	490 - [illegible]								
Thailand	(Bt)	42.1803	−0.1835	307 - [illegible]								
UAE	(Dirham)	4.2489	−0.0132	467 - [illegible]								

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc [illegible], Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, [illegible]. Bid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATES [illegible]

BONDS

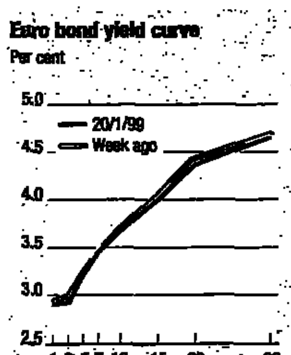
INTEREST RATE SWAPS

Jan 20	Euro-E Bid	Euro-E Ask	Euro-L Bid	Euro-L Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.02	3.05	3.02	3.05	5.47	5.50	5.11	5.14	0.49	0.52
2 year	3.03	3.07	3.03	3.07	5.20	5.23	5.17	5.20	0.61	0.64
3 year	3.16	3.20	3.16	3.20	5.16	5.20	5.24	5.27	0.85	0.88
4 year	3.30	3.34	3.30	3.34	5.14	5.18	5.30	5.33	1.09	1.12
5 year	3.45	3.49	3.45	3.49	5.12	5.16	5.34	5.37	1.31	1.34
6 year	3.60	3.64	3.60	3.64	5.10	5.14	5.39	5.42	1.51	1.54
7 year	3.74	3.78	3.74	3.78	5.09	5.13	5.44	5.47	1.70	1.73
8 year	3.86	3.90	3.86	3.90	5.09	5.13	5.48	5.51	1.86	1.89
9 year	3.97	4.01	3.97	4.01	5.09	5.13	5.52	5.55	1.99	2.02
10 year	4.06	4.10	4.06	4.10	5.09	5.13	5.55	5.58	2.10	2.13
12 year	4.22	4.26	4.22	4.26	5.09	5.14	5.64	5.67	2.31	2.34
15 year	4.41	4.45	4.41	4.45	5.10	5.15	5.77	5.80	2.56	2.59
20 year	4.61	4.65	4.61	4.65	5.09	5.16	5.87	5.90	2.78	2.82
25 year	4.72	4.76	4.72	4.76	5.09	5.16	5.88	5.91	2.83	2.87
30 year	4.79	4.83	4.79	4.83	5.09	5.16	5.90	5.93	2.90	2.94

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro quoted on annual bond 30/360 basis against 6 month Euribor and Libor with the exception of the 1 year rate which is quoted against 3 months Euribor and Libor. Source: Intercapital Brokers Ltd.

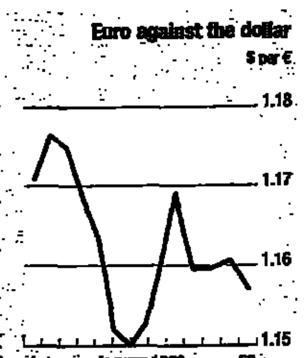
Euro bond yield curve

Per cent



Euro against the dollar

$ per €



Sources: Interactive Data/FT Information

EURO-ZONE BONDS

Jan 20	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Sprd v Govts
■ SOVEREIGNS								
UK	[illegible]							
Denmark	[illegible]							
Sweden	[illegible]							
Greece	[illegible]							
■ SUPRANATIONALS								
ADB	[illegible]							
EIB	[illegible]							
Eurofima	[illegible]							
World Bank	[illegible]							
■ UTILITIES								
EDF	[illegible]							
TEPCO	[illegible]							
Quebec Hydro	[illegible]							
Norsk Hydro	[illegible]							
■ FINANCIALS								
Bad Wurtt	[illegible]							
OKB	[illegible]							
Credit Local	[illegible]							
Abbey Natl	[illegible]							
■ INDUSTRIALS								
Unilever	[illegible]							
McDonalds	[illegible]							
Philip Morris	[illegible]							
BAT Int Fin	[illegible]							

Standard & Poor's ratings. Source: Interactive Data/FT Information

هكذا من الاصل

BUSINESS AND THE EURO

Benchmark providers head to head

Governments and banks are vying to become chief benchmark providers in the euro-zone. **Edward Luce** asks why

What is all this fuss about benchmarks? From the bond and money markets to the emerging pan-European stock market, governments and banks are vying with each other to claim the prize of being the chief benchmark provider for the euro-zone.

Judged on a crudely commercial basis, being a provider of a benchmark is not an obviously lucrative proposition. True, the German government would probably be able to issue debt at marginally lower rates than its French counterpart (assuming it is German rather than French government bonds which become the 'benchmark for the euro-zone). But it is at best a marginal benefit.

More important is the kudos to be derived from being a benchmark provider. Being the first port of call – and the only port of call in times of crisis and "flight to safety" – is a very tangible vote of confidence by investors in a government's ability to manage its finances. Why else has France gone to such lengths to compete with Germany for benchmark status?

Similarly, providing the benchmark lending rate in the money markets brings obvious prestige. London has for decades derived satisfaction from attaching its name to leading rates in the world's leading currencies. This is why continental governments are so keen that their own rate, Euribor, supplants Libor as the lending rate in the euro-zone. London, after all, is technically an offshore financial centre while the UK is outside the euro-zone.

For a bank providing the benchmark index for investors in the fixed-income markets, the rewards are difficult to measure. But few doubt that Salomon Smith Barney has a highly effective marketing tool in its World Government Bond Index. And this indirectly wins Salomon downstream business. The same – but with the benefits going to financial centres rather than banks – applies to stock market indices. London will undoubtedly benefit if the Footsie's Eurotop 100 becomes the leading index for the pan-European stock exchange. Paris and Frankfurt, meanwhile, are hoping that Stoxx 50, which is listed on their respective derivatives exchanges, wins the battle even though it is supplied by Dow Jones, a US company.

EQUITY INDICES

Horizons widen

By Vincent Boland

One of the most pressing issues facing fund managers in the aftermath of the euro is how to benchmark equity portfolios to cater for the new landscape the single currency has created.

The switch from country-specific to sector-specific investing and the prospect of a single trading platform for the shares of Europe's top companies have radically changed the way investors look at their portfolios. A significant rebalancing has begun.

A series of pan-European equity benchmarks is now available to cater for the wider horizons of Europe's fund managers. According to the most recent Merrill Lynch Gallup survey of fund manager views on equity benchmarks, only 2 per cent of those polled will be using national benchmarks this time next year.

The main providers of pan-European equity indices – Dow Jones, FTSE International and MSCI – are the main contenders to win new business.

For fund managers with longstanding relationships with particular indices, switching a benchmark is not something done lightly. Several point out the cost and heavy burden of administrative work involved in doing so.

Nevertheless, most agree that the trend towards indices reflecting a wider geographical spread is inevitable. Roughly half of Europe's fund managers use MSCI indices to benchmark portfolios, according to the poll. But MSCI does not have derivative products, which is seen as a handicap to further growth.

Far behind, in joint second place are the FTSE Eurotop and Dow Jones Stoxx series, which were used by 8 per cent of fund managers polled in January.

Futures contracts on both are available and relatively widely used.

A crucial factor in establishing which equity benchmark will win in the post-euro environment will be the adoption of a family of indices by the new pan-European market being developed by the London and Frankfurt stock exchanges.

GOVERNMENT BONDS

Germany in the lead

By Arkady Ostrovsky

Three weeks into the race for the status of the euro-zone benchmark bond, the German bond market is in the lead, boosted by the flight to safety from Brazil. Italy and France are trailing behind with little hope of catching up.

Yield spreads between French and German 10-year bonds virtually disappeared in the first days of euro trading and France even dipped below Germany in the 10-year sector. But the flight to quality and liquidity sparked off by the latest Brazilian crisis put Germany firmly in the lead with the yield spreads between the two rival benchmark bonds widening to 10 basis points in Germany's favour.

Phyllis Reed at Barclays Capital says the open interest in Matif, the French derivatives market, is only one-fifth of the open interest in Germany's Eurex in 10-year bond futures.

But analysts say that while for practical purposes Germany is widely perceived to be the euro-zone benchmark, France and Italy could lead in less prominent parts of the European yield curve. Danyelle Guyatt at Deutsche Bank says France has established a dominant position in bonds of 5-year maturity. France also provides the benchmark in less conventional instruments such as index-linked bonds and strips, while Italy is leading in short-term debt with maturity of up to one year.

While few economists dispute the dominance of the German bund, the most liquid and expensive in Europe, borrowers are concerned that German debt, which is only one-fifth the size of the US treasuries market, will not be able to satisfy demand for benchmark bonds.

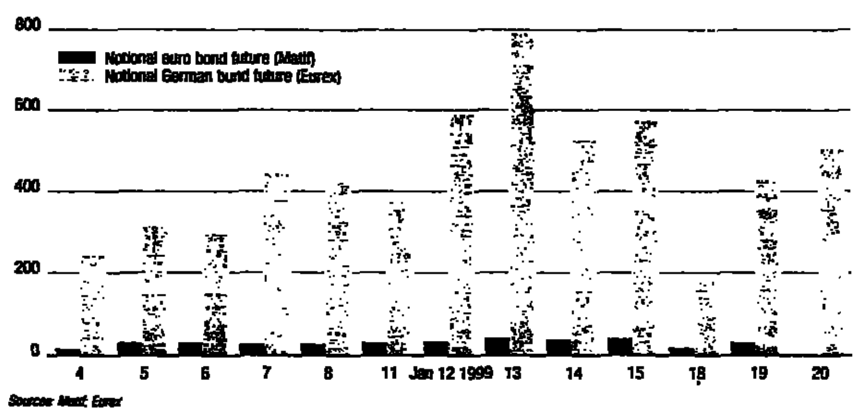
When investors sought shelter from turmoil in Russia and other emerging markets in European bonds, the shortage of underlying bunds caused a huge squeeze in the bund futures. "Last August open interest on bund futures was exceeding the total of all the deliverable basket by almost three times," says Ms Reed.

But since the launch of the euro the level of open interest in bunds is only half of what it was before the end of the year, as investors diversified into other euro-zone bond markets, she adds.

Some analysts argue the yield spreads between France, Germany and the Netherlands – three AAA-rated countries – could all but disappear in the 10-year sector if Matif, the French derivatives market, were to introduce a multi-issuer future contract. Last year Matif launched a similar contract which combines French, Dutch and German bonds of 30-year maturity into a single pool of bonds which would be delivered when the contract expires.

As a result, Dutch 30-year bonds are now trading only about 2 basis points over Germany, while the yield spread between France and Germany is flat. The only problem is that 30-year bonds are still fairly illiquid and it is the benchmark 10-year bond that matters.

Trading volumes remain in Frankfurt
Trading volumes ('000)



Source: Matif, Eurex

INTER-BANK LENDING RATES

Euribor gaining ground on 'offshore' rival

By Edward Luce

Competition to establish the benchmark inter-bank lending rate in euros was in full throttle well before 4 January.

Although Euro-Libor benefited from the fact that existing contracts in D-Marks and other legacy currencies could only be based on Libor, Euribor, the rate set by the European Bankers Federation, has already gained ground this year. Indeed, even before monetary union, several borrowers had issued floating rate bonds against Euribor in spite of the fact it did not yet exist.

Officials at the London International Financial Futures and Options Exchange estimate that between 60 and 80 per cent of new over-the-counter derivatives and money market contracts agreed since the start of the year have used Euribor as their reference rate.

Although the large majority of all contracts are still based on Libor, this gap is likely to be narrowed relatively soon. Roughly 15 per cent of all Liffe's Libor-based futures contracts were converted into Euribor-based contracts earlier this week at a voluntary auction.

Bankers say that the desire to reduce back-office administrative costs and to minimise risk means that one or other contract is likely to prevail.

Some in London attribute Euribor's initial popularity to the belief that European banks have been subjected to political pressure to adopt the benchmark. European central banks, including the Bank of France, are thought to have insisted that leading domestic banks adopt Euribor. "We should not have an offshore benchmark for the euro-zone," said one French banker.

Continental bankers had predicted that the rate would be calculated at a spread of two or three basis points over Libor owing to the fact that it would be based on daily quotes from 57 as opposed to just 16 banks under Libor. However, Euribor banks are asked to supply the best market rate, rather than their own inter-bank lending rate. Although the 16 Libor banks have a higher average credit standing, they are asked to supply their own lending reference rates. The two rates are thus almost identical, although Euribor has, on occasions, been marginally higher.

BOND INDICES

No clear winner

By Edward Luce

It is likely to take several months for a winner to emerge in the battle to establish a benchmark bond index for the euro.

A large number of mostly US banks have launched bond indices for the euro ranging from straight government bond indices to much broader corporate and even high-yield indices.

Even within the broader indices there is a large variation of the type of index on offer.

For example, Lehman Brothers offers an index with a cut-off point for inclusion of €100m. This means the index will track over 7,000 securities. Salomon Smith Barney, on the other hand, has chosen a cut-off point of €500m arguing that liquidity is the best criterion for inclusion.

One reason why it may take some time for a winner to emerge is that European fixed-income investors are less accustomed to benchmarking than their US counterparts. This is partly due to the fact that investment in Europe has, until recently, been less competitive than in the US and because the existence of 11 separate domestic markets has, to an extent, protected large institutional investors from easy comparisons with their cross-border counterparts.

It is possible that three or four indices will become popular in Europe without any one obviously predominating.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for Trading on 21.01.99 | Final Prices for Trading on 24.12.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	20.92	21.77	22.24	1.19
0100	20.92	21.97	22.43	1.19
0130	26.62	27.67	28.13	1.19
0200	26.62	27.67	28.13	1.19
0230	20.92	21.97	22.43	1.19
0300	21.02	20.93	21.40	1.19
0330	26.72	20.93	21.40	1.19
0400	21.02	20.93	21.40	1.19
0430	21.02	20.93	21.40	1.19
0500	21.02	20.93	21.40	1.19
0530	8.50	9.36	9.36	0.00
0600	8.50	9.36	9.36	0.00
0630	10.10	9.35	9.35	0.00
0700	21.59	9.35	9.35	0.00
0730	57.33	8.00	8.00	0.00
0800	57.34	9.38	9.38	0.00
0830	104.38	16.55	17.01	1.19
0900	104.38	16.55	17.01	1.19
0930	44.31	20.00	20.47	1.19
1000	44.31	20.00	20.47	1.19
1030	44.31	20.00	20.47	1.19
1100	41.17	16.55	17.01	1.19
1130	44.31	16.55	17.01	1.19
1200	44.31	16.55	17.01	1.19
1230	44.31	16.55	17.01	1.19
1300	44.31	16.55	17.01	1.19
1330	44.30	9.37	9.37	0.00
1400	38.97	9.35	9.35	0.00
1430	44.31	9.34	9.34	0.00
1500	44.31	9.34	9.34	0.00
1530	44.32	8.00	8.00	0.00
1600	44.38	9.36	9.36	0.00
1630	45.88	16.56	17.01	1.19
1700	70.49	72.17	72.64	1.19
1730	85.92	72.17	72.64	1.19
1800	85.90	44.41	44.87	1.19
1830	82.09	44.41	44.87	1.19
1900	72.61	35.96	36.43	1.19
1930	71.19	24.11	24.57	1.19
2000	57.44	24.11	24.57	1.19
2030	101.56	24.11	24.57	1.19
2100	101.55	9.34	9.34	0.00
2130	57.33	9.37	9.37	0.00
2200	57.33	8.00	8.00	0.00
2230	27.16	8.00	8.00	0.00
2300	21.48	8.00	8.00	0.00
2330	21.48	8.00	8.00	0.00
2400	10.05	8.00	8.00	0.00

Greenspan remarks hit Treasuries

BENCHMARK BONDS

By John Labate in New York and Bertrand Benoit in London

The US Treasury market lost some ground yesterday after remarks by Federal Reserve chairman Alan Greenspan suggesting US interest rates would remain stable in the near future.

Reactions in the European markets were more mixed, with many investors concentrating on domestic fundamentals.

US Treasuries had fallen back by midday as stocks rallied and Alan Greenspan testified before Congress on the state of markets and the economy.

By early afternoon the benchmark 30-year bond was 12/16 lower at 100 [illegible], yielding 5.210 per cent. The two-year note was down 1/32 at 99 [illegible], yielding 4.709 per cent, and the 10-year note had fallen [illegible] to 99 11/16, yielding 4.789 per cent.

In his prepared remarks Mr Greenspan addressed the issue of asset price inflation.

"Essentially he's not targeting any level for the stock market," said Richard Gilhooly, international bond strategist at Paribas Capital Markets in New York.

The resulting pressure on bonds was compounded by the reversal of last week's flight to quality in the wake of the Brazilian currency crisis, with funds now flying back into US shares and emerging market paper.

In German bunds, the March future settled 0.27 higher at 117.07. The Bundesbank also auctioned €4.395bn of a new tranche of its 30-year, 4.75 per cent bond priced at 101.45. Traders said the issue had been well received with a broad spectrum of buyers.

"The fundamentals for Europe are more favourable," said Ifty Islam, European bond strategist at Deutsche Morgan Grenfell.

"The European Central Bank wants to be seen as acting tough but is also anxious to appear pragmatic in a context of slow growth," he added. The ECB wrote in its first monthly bulletin, published on Tuesday, that growth in the euro-zone this year was likely to be slow, prompting speculation that it might cut rates in the first half of 1999.

Meanwhile, the European Commission said yesterday that it would revise downwards its GDP growth forecasts, to be published in the spring.

"Even the strength of stock markets does not have the same depressive effect on bonds as in the US, partly because the wealth effect is much weaker here due to smaller individual holdings," Mr Islam said.

UK gilts ended higher yesterday on reports of a 0.9 per cent decline in retail sales from November to December 1998, against market expectations of a 0.1 increase.

The news more than offset Tuesday's announcement that underlying inflation had increased by 0.2 per cent to 2.6 per cent in December.

The 10-year future ended up 0.22 at 119.53, on expectations that GDP quarter-on-quarter growth, to be published on Friday, would be negative.

The yield on the benchmark Japanese government bond continued to drop yesterday, hitting 1.770 per cent at the close – more than nine basis points lower on the day.

Promodès convertible raises €600m

By Vincent Boland

Promodès, the French retail group, yesterday raised nearly €600m in a convertible bond issue carrying the highest conversion premium so far for a European issuer.

The bonds are convertible into the company's shares at a premium of 55 per cent to the current share price, which was €645 when the issue was priced yesterday. Conversion premiums have been rising in line with equity markets, but the previous highest achieved by European issuers were between 35 and 42 per cent.

Promodès said the issue, which raised €589.5m, would be accretive to earnings per share. The proceeds of the bonds, the second convertible to be issued in euros following this month's offering by Vivendi, will be used to restructure the retailer's debt profile and fund international expansion.

The company's wish to avoid dilution necessitated a higher coupon, however. The bonds will pay 2.5 per cent over their five-year life compared with 1.25 per cent on the Vivendi issue.

Jean-François Mazaud, head of equity-linked origination at Société Générale, lead manager and book-runner for the Promodès issue, said the bonds attracted €3.6bn of demand, with the bulk of interest coming from fixed-income investors.

Some 40 per cent of the bonds were sold to French buyers, 23 per cent to the UK, 12 per cent to Switzerland and the rest elsewhere. Shares of Promodès closed €1 lower yesterday at €644.

Convertible bond issuance has been the strongest area of equity capital market activity recently.

Investors pile into bonds in drachma

By Khozem Merchant

Greek bonds have emerged as the next "convergence play" as investors pile into drachma paper in the expectation that the country will be one of the next to join the European Monetary Union.

A round of drachma bond issuance accompanied the launch of the euro this year amid rising investor expectations that strong political support in Greece for the euro-zone will translate into Emu membership.

This political momentum, supported by polls that show support from all political groups except the communists, is forcing a convergence of drachma yields towards euro yields.

Investors feel convergence will push drachma yields from 6.5 per cent for short-dated bonds to the euro level of about 3 per cent. Geraud de Nadaillac, head of syndicate at Royal Bank of Canada, says the appeal for those seeking drachma arbitrage opportunities is clear. "An investment in drachma bonds makes sense, especially as the currency is holding up well."

Greek bonds have made spectacular gains recently. Yields on 10-year Greek issues have narrowed by 350 basis points since Greece joined the Exchange Rate Mechanism last March and have tightened by 190 basis points against the comparable bund. Bankers say the 10-year spread against the bund will narrow from about 296 basis points to about 175 points in 12 months.

The backdrop to the excitement is a convergence programme that a senior Greek government official called "on track". He said Greece had benefited from the continuity of economic policy, based on a strong incomes policy, privatisation and raising tax revenues.

The big problem for an economy growing at a trend rate of about 3.5 per cent is inflation, which is currently 4.7 per cent, having fallen to a 25-year low in December.

The authorities say convergence will yield many benefits, including savings on interest payments on government debt, which amount to 9 per cent of GDP compared with a euro-zone average of 4 per cent.

Interest payments are forecast to fall by 1 per cent of GDP a year until 2001. Short-term rates, currently 12 per cent, would need to fall 25 basis points a month to achieve the convergence target of about 3 per cent by 2001. Interest rate convergence would bring huge savings and lower the cost of capital for the private sector.

Increased drachma issuance, which began in November but can be traced back to the devaluation of the currency earlier in 1998, peaked when the World Bank launched a Dr40bn bond, the largest single drachma issue, this month.

This week it issued a Dr10bn long-dated bond, which was followed by a three-year Dr15bn bond from the European Bank for Reconstruction and Development. The World Bank issue is expected to emerge as the first liquid benchmark in the sector. Liquidity is seen as crucial for the drachma market, which is hampered by a lack of secondary trading.

Pfandbrief issue pace sustained

NEW ISSUES

By Khozem Merchant

The pace of pfandbrief bond issuance was sustained yesterday by Württemberger Hypothekenbank with a 10-year €1bn offering.

Publicly-owned German banks that issue pfandbriefe (bonds collateralised by mortgages and public sector loans) have been keen to diversify away from their domestic investor base.

Pfandbriefe are traditionally structured towards the home market and the recent heavy issuance has tested domestic appetite.

Eighteen months ago 95 per cent of pfandbriefe were bought by buyers at home. But the onset of the single currency has encouraged issuers of some very large global bonds to appeal to a more international audience.

The Württemberger bond, lead-managed by Goldman Sachs and HypoVereins, had a globally structured syndicate that helped distribute the paper in France, Italy and Spain. German buyers bought half the issue.

Pfandbriefe are one of the cheapest ways of holding "quasi-agency" paper for use as collateral to support repo transactions at the European Central Bank.

Ten-year Dutch bonds are trading to yield 11 basis points over German bunds and Italian paper is at a spread of about 25 basis points compared with roughly 40 to 43 basis points on typical pfandbriefe.

Yesterday's seven-year bond was priced to yield 18 basis points over the relevant German bund.

DePfa, the biggest issuer of pfandbriefe, is shortly to offer a bumper 10-year global €2bn to €3bn bond. Last year it set the market buzzing with a DM5bn global issue of 10-year 2008 notes.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
National Australia Bank†	500	(a)	99.817R	Feb 2002	0.125R	-	Deutsche/WDR
Bank of Novia Scotia†	500	(b)	100.004	Feb 2001	0.100	-	(b1)
Rabobank	500	5.375	99.269R	Jan 2009	2.00R	+65(4¾Nov08)	JP Morgan/Salomon SB
Goldman Sachs†	250	(c)	99.912R	Feb 2004	0.25R	-	Goldman Sachs
Royal Bank of Canada†	200(d)	(d1)	99.995	Jul 2000	0.075	-	CSFB
Macquarie Bank†	150	(e)	99.90R	Aug 2001	0.125R	-	Merrill Lynch
EIB	150(f)	5.625	102.29R	Feb 2005	0.30R	+47(4¾Nov03)	Greenwich NatWest
KfW Int Finance	100	(g)	99.90R	Feb 2009	0.25R	-	Barclays
EUROS(e)							
Wuerttemberger Hypo	1bn	3.5	99.43R	Jan 2008	0.11R	+18(Jan 08)	Goldman S/HypoVereins
Domos 5 Class A†	150	(h)	100.00	Feb 2001	0.125	-	Paribas
Domos 5 Class B†	250	(m)	100.00	Feb 2004	0.25	-	Paribas
Domos 5 Class C†	150	(n)	100.00	Feb 2005	0.30	-	Paribas
Domos 5 Class D	190	4.40	99.704	Feb 2005	0.325	+70§	Paribas
Domos 5 Class E	215	4.60	99.516	Feb 2011	0.35	+80§	Paribas
SNS Nederland	300	4.375	99.35R	Jan 2009	0.40R	+76(3¾Jan09)	Deutsche Bank
Xerox Corp	300	3.50	99.37R	Feb 2004	0.25R	+45(6½Sep03)	Deutsche/Merrill Lynch
BES Finance Ltd †	300	(q)	99.875R	Feb 2004	0.175R	-	Deutsch/CSFB
Helaba	150	3.125(s)	99.177R	Dec 2003	0.25R	+15(6¾Sep03)	ING Barings BBL
West Hypo	100	(t)(s)	99.90	Dec 2008	0.35	-	Commerzbank
YEN							
Nichiei Co Ltd§(t)	12bn	(1½-2)¶	100.00	Mar 2014	2.50	-	Deutsche Bank
GREEK DRACHMA							
Credit Local de France	20bn	6.50	99.95R	Feb 2002	0.875R	-	(u)

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. † Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor flat. b) 3-mth Libor +5bp. b1) ABN Amro/Barclays/Deutsche Bank. c) 3-mth Libor +65bp. d) $300m launched 19/1/99 increased to $500m. [illegible] Bank of Greece/Credito Italiano.

Interest rate uncertainty and volatility in swap spreads continue to underpin demand for floating-rate notes. FRN issues launched yesterday, including bonds by Bank of Nova Scotia, National Bank of Australia and Royal Bank of Canada, underlined the appetite for this type of security.

Rabobank, the last triple A rated bank, offered a 10-year $500m bond. Middle East buyers were among the investors for an issue, led by four banks, that was not fully bought. The issue by the Dutch bank was priced to yield 65 basis points over the relevant Treasury.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 20	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing, * New York mid-day. Source: Interactive Data/FT Information.

10 YEAR BENCHMARK SPREADS

Jan 20	Bid Yield	Spread vs Euro	Spread vs T-Bonds
Australia	5.22	+1.53	+0.44
Austria	3.89	+0.30	-0.79
Belgium	4.00	+0.31	-0.78
Canada	5.03	+1.34	+0.25
Denmark	4.05	+0.36	-0.73
Finland	3.90	+0.21	-0.88
France	3.77	+0.08	-1.01
Germany	3.69	-	-1.09
Greece	6.25	+2.59	+1.50
Ireland	3.94	+0.25	-0.84
Italy	3.90	+0.21	-0.88
Japan	1.80	-1.89	-2.98
Netherlands	3.83	+0.14	-0.95
New Zealand	5.54	+1.85	+0.76
Norway	5.06	+1.37	+0.28
Portugal	3.99	+0.30	-0.79
Spain	4.00	+0.31	-0.78
Sweden	4.22	+0.53	-0.56
Switzerland	2.46	-1.23	-2.32
UK	4.25	+0.56	-0.53
US	4.78	+1.09	-

Source: Interactive Data/FT Information.

EMERGING MARKET BONDS

Jan 20	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Spread vs US
EUROPE								
Croatia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Poland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Russia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LATIN AMERICA								
Argentina	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ASIA								
China	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AFRICA/MIDDLE EAST								
Lebanon	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Turkey	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BRADY BONDS								
Argentina	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Venezuela	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONG TERM EURO BOND OPTIONS (MATIF): [illegible]

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%: [illegible]

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%: [illegible]

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%: [illegible]

NOTIONAL LFS SWAP FUTURES (LIFFE): [illegible]

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE): [illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE): [illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000: [illegible]

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%: [illegible]

NOTIONAL UK GILT FUTURES (LIFFE) £100,000 100ths of 100%: [illegible]

LONG GILT FUTURES OPTIONS (LIFFE): [illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%: [illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%: [illegible]

Euro

EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	[illegible]	[illegible]	-0.19	112.30	112.30	1	207

US CORPORATE BONDS

[illegible]

Source: Interactive Data/FT Information.

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

Jan 20	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
$								
EIB	04/07	7.250	AAA	112.2378	5.37	+0.01	+0.24	+0.74
ABN Amro	06/07	7.125	AA-	105.1409	8.31	+0.01	+0.14	+1.68
Quebec	01/07	7.000	A+	107.2779	5.85	+0.01	+0.19	+1.22
Citicorp FRN	02/04	5.312	AA-	94.9214	6.49	+0.01	+0.10	+1.93
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Standard & Poor's ratings. Source: Interactive Data/FT Information.

UK BONDS

FTSE Actuaries Government Securities

[illegible]

UK Indices

[illegible]

FT Fixed Interest Indices: [illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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Dollar stable on cautious Greenspan

MARKETS REPORT

By Alan Beattie

The dollar reacted calmly yesterday to measured testimony from Alan Greenspan, chairman of the Federal Reserve chairman, who soothed fears of an imminent equity market fall.

Markets had been nervous going in to the testimony, delivered by Mr Greenspan to the US Congress Ways and Means Committee. Traders feared that a sharp rebuke to the equity market of the infamous "irrational exuberance" variety might spark a collapse in share prices and consequent flight out of the dollar.

But although he continued to warn that a rapid fall in share prices could be damaging for consumer demand, Mr Greenspan went out of his way to praise the US economy for creating so many investment opportunities. He also took some time to argue that the very low savings ratio in the US, often cited as evidence of the instability of the US position, was partly a statistical illusion.

The dollar dipped slightly against the euro after Mr Greenspan's testimony, closing at the end of London trading at $1.157. But it stayed close to the highs around $1.154 reached earlier in the day.

Against the yen, the dollar weakened during Asian trading hours. Market analysts were divided over the reasons, but some pointed to a strongly-worded protectionist warning issued to Japan in an otherwise anodyne State of the Union speech by President Clinton on Tuesday.

■ **POUND IN NEW YORK**

Jan 20	—Latest—	— Prev. close —
£ spot	1.6460	1.6555
1 mth	1.6446	1.6541
3 mth	1.6431	1.6526
1 yr	1.6421	1.6503

This is likely to boost the yen by increasing uncertainty and reducing capital flows needed to support the dollar.

■ Few analysts believed that the outlook for the dollar had changed markedly as a result of the Greenspan comments.

"In the short term this is potentially bearish for the dollar because of the warnings over the equity market," said Cameron Crise, currency strategist at Warburg Dillon Read in London. "But in the longer term, the dollar could be supported if the strength in the US economy is seen as ruling out a cut in rates."

Mr Crise said that in the absence of a collapse in emerging market currencies, which he thought unlikely, the Federal Reserve was likely to keep interest rates on hold for the foreseeable future.

The front end of the US interest rate futures strip was little changed on the day, but prices further out fell markedly. Contracts expiring around the end of 1999 added 8 to 10 basis points to expected interest rates, implying that the market found Mr Greenspan's testimony more bullish on the real economy than they had expected.

"The Alan Greenspan we heard today was more like the domestic Greenspan of 1996 and the first half of 1997, rather than the global liquidity manager of recent months," said Mr Crise.

■ Sterling fell yesterday after poor retail sales figures for December undermined anecdotal evidence that UK retailers had enjoyed a surprisingly good festive season.

Since the new year, several retailers have reported that good performances in the post-Christmas sales have partially offset a grim performance earlier in the month. But yesterday's data showed that retail sales volumes fell by 0.9 per cent in December and were just 0.7 per cent higher than a year earlier.

Sterling dropped abruptly on the news, which was considerably worse than most in the market had expected, and closed down at £0.702 against the euro.

The pound was also pressured by reported large sales of sterling for Swedish kronor.

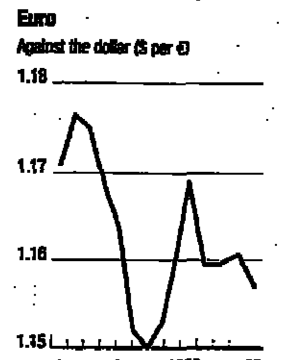
The krona rose against the euro yesterday to close at SKr8.943 at the end of London trading, its highest level yet this year.

"There was a feeling that of the European monetary union bench-warmers, sterling was a little overvalued going into the euro's launch while the Swedish krona was undervalued," said Mike Wallace, currency analyst at MMS Standard and Poor's.

"And with the euro moving sideways, traders saw a chance to sell pounds for kronor," he added.

Euro

Against the dollar ($ per €)



Source: Datastream/ICV

■ **OTHER CURRENCIES**

Jan 20	£	$
Czech Rp	51.1575 - 51.2285	31.0610 - 31.0890
Hungary	355.686 - 356.139	215.960 - 216.130
Iran	4943.40 - 4941.00	3000.00 - 3000.00
Kuwait	0.4977 - 0.4985	0.3022 - 0.3025
Peru	5.3511 - 5.3595	3.2490 - 3.2520
Poland	5.8106 - 5.8266	3.5290 - 3.5360
Russia	38.0457 - 38.3937	23.1000 - 23.3800
U.A.E.	6.0491 - 6.0527	3.6728 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jan 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	19.5918	-0.0709	828 - 008	19.6607	19.5819	19.5445	2.9	19.4543	2.8	19.1468	2.3	103.2
Belgium*	(BFr)	57.4357	-0.2076	093 - 620	57.7280	57.4070	57.2972	2.9	57.0619	2.8	56.131	2.3	103.2
Denmark	(DKr)	10.5920	-0.0285	853 - 986	10.6392	10.5853	10.5725	2.2	10.5417	1.9	10.418	1.6	106.4
Finland*	(FM)	8.4655	-0.0305	615 - 694	8.5080	8.4618	8.4461	2.9	8.4104	2.8	8.2732	2.3	81.9
France*	(FFr)	9.3995	-0.0338	352 - 438	9.3967	9.3348	9.317	2.9	9.2787	2.8	9.1274	2.3	106.7
Germany*	(DM)	2.7847	-0.0101	834 - 860	[illegible]	[illegible]	2.778	2.9	2.7666	2.8	2.7215	2.3	104.5
Greece	(Dr)	459.419	-2.1730	309 - 637	462.298	458.144	461.503	-5.4	465.228	-5.1	476.582	-4.2	63.0
Ireland*	(I£)	1.1213	-0.0041	206 - 219	1.1276	1.1206	1.1185	2.9	1.114	2.8	1.0959	2.3	85.1
Italy*	(L)	2756.65	-8.6890	508 - 811	2770.75	2755.45	2750.2	2.9	2738.97	2.8	2694.22	2.3	76.0
Luxembourg*	(LFr)	57.4357	-0.2076	093 - 620	57.7280	57.4070	57.2972	2.9	57.0619	2.8	56.131	2.3	103.2
Netherlands*	(Fl)	3.1377	-0.0113	362 - 391	3.1534	3.1360	3.1301	2.9	3.1173	2.8	3.0664	2.3	102.7
Norway	(NKr)	12.2213	-0.0669	140 - 285	12.3332	12.2142	12.2479	-2.6	12.2833	-2.0	12.3463	-1.0	93.4
Portugal*	(Es)	285.445	-1.0220	314 - 576	288.862	285.282	284.757	2.9	283.587	2.8	278.961	2.3	92.5
Spain*	(Pta)	236.896	-0.8670	[illegible]	238.090	236.799	236.328	2.9	235.357	2.8	231.518	2.3	77.2
Sweden	(SKr)	12.7336	-0.1026	264 - 408	12.8923	12.7116	12.7054	2.7	12.6685	2.4	12.4834	2.0	83.3
Switzerland	(SFr)	2.2868	-0.0057	854 - 881	2.2914	2.2796	2.2775	4.9	2.282	4.3	2.2027	3.7	107.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	99.5
Euro	(€)	1.4236	-0.0052	231 - 244	1.4310	1.4230	1.4204	2.8	1.4145	2.6	1.3915	2.3	-
SDR†	-	1.181730											-
Americas													
Argentina	(Peso)	1.6471	-0.0111	467 - 475	1.6581	1.6452							-
Brazil	(R$)	2.5947	-0.0258	[illegible]	[illegible]	2.5570							-
Canada	(C$)	2.5131	-0.0214	117 - 145	2.5351	2.5087	2.5113	0.9	2.508	0.7	2.505	0.3	76.3
Mexico	(New Peso)	16.7541	-0.3160	335 - 746	16.8983	[illegible]	17.1602	-28.1	17.8534	-26.5	20.7372	-23.8	-
USA	($)	1.6474	-0.0111	470 - 478	1.6565	1.6455	1.6461	1.0	1.6445	0.7	1.6402	0.3	104.3
Pacific/Middle East/Africa													
Australia	(A$)	2.5741	-0.0214	714 - 767	2.5959	2.5714	2.5716	1.2	2.5686	0.9	2.5647	0.4	79.8
Hong Kong	(HK$)	12.7649	-0.0866	610 - 688	12.8423	12.7515	12.7614	0.3	12.7676	-0.7	13.0497	-2.2	-
India	(Rs)	70.0316	-0.4719	[illegible]	70.4160	70.0160	70.3172	-4.9	70.9703	-5.4	74.8094	-7.0	-
Indonesia	(Rupiah)	13961.74	-11.1500	[illegible]	14104.80	13909.50	14486.27	-45.0	15498.41	-44.1	18573.88	-34.5	-
Israel	(Shk)	6.6750	-0.0644	[illegible]	6.6855	6.6684							-
Japan	(Y)	186.989	-1.5570	902 - 075	191.250	186.840	186.098	5.7	184.508	5.3	177.855	4.8	134.1
Malaysia‡	(M$)	6.2601	[illegible]	[illegible]	[illegible]	[illegible]							-
New Zealand	(NZ$)	3.0518	-0.0287	[illegible]	3.0665	3.0432	3.0403	2.5	3.0356	1.5	3.006	0.5	90.8
Philippines	(Peso)	63.1779	-0.4257	154 - 403	63.4400	63.2763	63.6181	-8.4	64.4216	-7.9	68.1102	-7.5	-
Saudi Arabia	(SR)	6.1800	-0.0419	771 - 824	6.2131	6.1747	6.1848	-0.9	6.1994	-1.2	6.2722	-1.5	-
Singapore	(S$)	2.7652	-0.0239	637 - 667	2.7854	2.7629	2.7576	3.3	2.7464	2.7	2.7048	2.2	-
South Africa	(R)	9.8885	-0.1392	696 - 074	9.9940	9.8643	9.9759	-10.6	10.1425	-10.3	10.9047	-10.3	-
South Korea	(Won)	1921.89	-27.5500	876 - 463	1946.05	1918.75	-	-	-	-	-	-	-
Taiwan	(T$)	53.1287	-0.4301	334 - 239	53.4739	53.0334	53.1428	-0.3	53.1913	-0.5	53.5356	-0.8	-
Thailand	(Bt)	60.0580	-0.4793	837 - 282	60.6520	59.9837	60.1457	-1.8	60.3859	-2.2	62.0391	-3.3	-

† Rates for Jan 19. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria*	(Sch)	11.8926	+0.0369	900 - 951	11.9799	11.8501	11.8737	1.9	11.8361	1.9	11.6561	2.0	102.9
Belgium*	(BFr)	34.8845	+0.1082	569 - 720	34.9440	34.7400	34.809	1.9	34.6988	1.9	34.1711	2.0	103.2
Denmark	(DKr)	6.4295	+0.0210	270 - 320	6.4463	6.4066	6.423	1.2	6.4102	1.2	6.343	1.3	105.9
Finland*	(FM)	5.1387	+0.0159	376 - 398	5.1505	5.1203	5.1306	1.9	5.1143	1.9	5.0365	2.0	81.4
France*	(FFr)	5.6692	+0.0175	680 - 704	5.6822	5.6490	5.6602	1.9	5.6423	1.9	5.5564	2.0	106.2
Germany*	(DM)	1.6904	+0.0052	900 - 907	1.6942	1.6843	1.6877	1.9	1.6824	1.9	1.6567	2.0	104.2
Greece	(Dr)	278.875	+0.5550	810 - 940	279.530	278.410	280.37	-6.4	282.9	-5.8	291.525	-4.5	62.5
Ireland*	(I£)	1.4892	-0.0045	888 - 895	1.4744	1.4658	1.4716	-1.9	1.4762	-1.9	1.4992	-2.0	-
Italy*	(L)	1673.45	+5.1900	309 - 382	1677.30	1667.47	1670.79	1.9	1665.5	1.9	1640.17	2.0	75.9
Luxembourg*	(LFr)	34.8845	+0.1082	569 - 720	34.9440	34.7400	34.809	1.9	34.6988	1.9	34.1711	2.0	103.2
Netherlands*	(Fl)	1.9046	+0.0059	042 - 050	1.9090	1.8978	1.9016	1.9	1.8956	1.9	1.8668	2.0	102.5
Norway	(NKr)	7.4185	-0.0083	160 - 210	7.4610	7.4150	7.4407	-3.6	7.4688	-2.7	7.5202	-1.4	92.4
Portugal*	(Es)	173.270	+0.5370	233 - 307	173.670	172.650	172.994	1.9	172.447	1.9	169.824	2.0	92.9
Spain*	(Pta)	143.802	+0.4460	771 - 833	144.130	143.290	143.573	1.9	143.119	1.9	140.942	2.0	76.9
Sweden	(SKr)	7.7295	-0.0210	270 - 320	7.7845	7.7135	7.7187	1.7	7.6975	1.7	7.6076	1.6	82.3
Switzerland	(SFr)	1.3881	+0.0127	876 - 886	1.3920	1.3775	1.3836	3.9	1.3754	3.6	1.341	3.4	106.2
UK	(£)	1.6474	-0.0111	470 - 478	1.6565	1.6455	1.6461	1.0	1.6445	0.7	1.6421	0.3	99.5
Euro	(€)	1.1571	-0.0038	568 - 573	1.1612	1.1541	1.1589	-1.9	1.1626	-1.9	1.1907	-2.0	-
SDR†	-	0.71205	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.5750	-0.0050	700 - 800	1.5800	1.5700	-	-	-	-	-	-	-
Canada	(C$)	1.5255	-0.0027	250 - 260	1.5305	1.5230	1.5257	-0.1	1.5258	-0.1	1.5242	0.1	75.8
Mexico	(New Peso)	10.1700	-0.1225	600 - 800	10.1800	10.1600	10.425	-30.1	10.8625	-27.2	12.82	-26.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	105.7
Pacific/Middle East/Africa													
Australia	(A$)	1.5625	-0.0024	613 - 637	1.5669	1.5593	-	-	-	-	-	-	79.5
Hong Kong	(HK$)	7.7485	-	480 - 490	7.7490	7.7480	7.7527	-0.7	7.776	-1.4	7.9285	-2.3	-
India	(Rs)	42.5100	-	050 - 150	42.5150	42.5050	42.7188	-5.9	43.1562	-6.1	45.5875	-7.2	-
Indonesia	(Rupiah)	8475.00	+50.0000	500 - 500	8525.00	8440.50	8800	-46.0	9425	-44.8	11275	-33.0	-
Israel	(Shk)	4.0525	-0.0058	478 - 573	4.0585	4.0476	-	-	-	-	-	-	-
Japan	(Y)	113.505	-0.1850	480 - 530	114.040	113.030	113.055	4.8	112.2	4.6	108.325	4.6	134.9
Malaysia‡	(M$)	3.8000	-	300 - 300	3.8000	3.7999	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8524	-0.0115	512 - 536	1.8650	1.8457	-	-	-	-	-	-	-
Philippines	(Peso)	38.3500	-	000 - 000	38.5000	38.2000	38.6495	-9.4	39.174	-8.6	41.7925	-9.0	-
Saudi Arabia	(SR)	3.7515	-0.0002	505 - 525	3.7525	3.7505	3.7573	-1.9	3.7698	-1.9	3.819	-1.8	-
Singapore	(S$)	1.6785	-0.0032	780 - 790	1.6835	1.6710	1.6753	2.3	1.67	2.0	1.65	1.7	-
South Africa	(R)	6.0025	-0.0438	925 - 125	6.0350	5.9800	6.0605	-11.6	6.1675	-11.0	6.6625	-11.0	-
South Korea	(Won)	1166.50	-8.8000	500 - 800	1176.00	1165.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.2500	-0.0435	000 - 000	32.3000	32.2000	32.265	-1.3	32.345	-1.2	32.61	-1.1	-
Thailand	(Bt)	36.4550	-0.0450	200 - 900	36.6500	36.4200	36.54	-2.8	36.72	-2.9	37.805	-3.7	-

† SDR rate per $ for Jan 19. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 5.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Jan 19. Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. Due to technical problems forward rates for Australia and New Zealand are temporarily unavailable.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Jan 20	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	5	-	-	-
US Dollar CDs	-	4.77	4.77	4.71	4.70	-	-	-
Euro Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
BBA Euro Libor	-	[illegible]	[illegible]	3	[illegible]	-	-	-
Euro Euribor	-	3.074	3.054	3.014	2.985	-	-	-
EONIA	3.01	-	-	-	-	-	-	-
EURONIA	2.9957	-	-	-	-	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate fixed at 11am. [illegible]

INTERNATIONAL CURRENCY RATES

Jan 20	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible] - 3	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	4 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible] - 1	[illegible] - 1	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible] - 3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	97.07	-0.01	-	-	-	-
Jun	97.17	97.14	-0.02	97.17	97.13	2,713	17,470

■ THREE MONTH EURIBOR FUTURES (LIFFE) Euro1m

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

[illegible]

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

[illegible]

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Euro1m points of 100%

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
97125	0.030			0.140		
97250	0.015	0.080	0.140	0.250	0.200	0.210
97375	0.005			0.365		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2086 Puts 8478

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.44	16.26	4.848	1.952	4800	5.463	21.28	497.0	412.5	22.17	3.981	1.741	4.376	2.868	325.8	2.479
Denmark	(DKr)	54.23	10	8.817	2.629	1.059	2603	2.962	11.54	269.5	223.7	12.02	2.159	0.944	2.373	1.555	176.5	1.344
France*	(FFr)	61.50	11.34	10	2.982	1.201	2952	3.360	13.09	305.6	253.7	13.63	2.448	1.071	2.691	1.764	200.2	1.525
Germany*	(DM)	20.63	3.804	3.354	1	0.403	990.0	1.127	4.389	102.5	85.07	4.573	0.821	0.359	0.902	0.592	67.15	0.511
Ireland*	(I£)	51.22	9.446	8.329	2.483	1	2459	2.798	10.90	254.6	211.3	11.26	2.099	0.892	2.241	1.469	166.8	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.443	10.35	8.593	0.462	0.083	0.036	0.091	0.060	6.783	0.052
Netherlands*	(Fl)	18.31	3.376	2.977	0.888	0.357	878.6	1	3.895	90.97	75.50	4.058	0.729	0.319	0.801	0.525	59.60	0.454
Norway	(NKr)	47.00	8.667	7.642	2.279	0.918	2256	2.567	10	233.6	193.8	10.42	1.871	0.818	2.056	1.348	153.0	1.165
Portugal*	(Es)	20.12	3.711	3.272	0.976	0.393	965.8	1.099	4.281	100	82.99	4.461	0.801	0.350	0.880	0.577	65.51	0.499
Spain*	(Pta)	24.24	4.471	3.942	1.175	0.473	1164	1.324	5.159	120.5	100	5.375	0.965	0.422	1.061	0.695	78.93	0.601
Sweden	(SKr)	45.11	8.318	7.335	2.187	0.881	2165	2.464	9.598	224.2	186.0	10	1.796	0.785	1.974	1.294	146.8	1.118
Switzerland	(SFr)	25.12	4.632	4.084	1.218	0.490	1206	1.372	5.344	124.8	103.6	5.568	1	0.437	1.099	0.720	81.77	0.623
UK	(£)	57.43	10.59	9.339	2.785	1.121	2757	3.137	12.22	285.4	236.9	12.73	2.287	1	2.513	1.647	187.0	1.424
Canada	(C$)	22.85	4.215	3.716	1.108	0.446	1097	1.249	4.863	113.6	94.26	5.067	0.910	0.398	1	0.656	74.41	0.567
USA	($)	34.86	6.430	5.669	1.690	0.681	1673	1.905	7.419	173.3	143.8	7.730	1.388	0.607	1.526	1	113.5	0.864
Japan	(Y)	30.72	5.665	4.995	1.489	0.600	1474	1.678	6.536	152.7	126.7	6.810	1.223	0.535	1.344	0.881	100	0.761
Euro	(€)	40.34	7.439	6.560	1.956	0.788	1936	2.204	8.584	200.5	166.4	8.943	1.606	0.702	1.766	1.157	131.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5973	0.5930	-0.0023	0.5932	0.5916	5,501	54,916
Jun	0.5959	0.5952	-0.0030	0.5959	0.5952	5	1,401
Sep	0.5985	-	-	-	-	-	143

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7230	0.7247	-0.0068	0.7331	0.7215	10,700	38,758
Jun	0.7311	0.7309	-0.0072	0.7392	0.7309	9	400
Sep	0.7495	0.7449	+0.0006	0.7453	0.7418	-	321

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8433	0.8855	-0.0018	0.8858	[illegible]	[illegible]	[illegible]
Jun	0.9077	-	-	-	-	[illegible]	[illegible]
Sep	0.9202	-	-	-	-	-	[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6476	1.6454	-0.0076	1.6602	[illegible]	[illegible]	[illegible]
Jun	1.6440	1.6440	-0.0066	1.6590	[illegible]	[illegible]	[illegible]
Sep	1.6540	1.6500	+0.0002	1.6560	[illegible]	[illegible]	[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
94250	0.235	0.600	0.825	0.025	0.035	0.060
94375	0.145			0.060		
94500	0.080	0.390	0.610	0.120	0.075	0.095
94625	0.040			0.205		
94750	0.020	0.220	0.445	0.310	0.155	0.160
94875	0.005			0.420		

Est. vol. total, Calls 14405 Puts 27854. Previous day's open int., Calls 494693 Puts 518918

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
0.590	0.85	1.17	1.46	[illegible]	[illegible]	[illegible]
0.595	0.57	0.89	1.18	[illegible]	[illegible]	[illegible]
0.600	0.38	0.67	0.95	[illegible]	[illegible]	[illegible]

Previous day's vol., Calls 40 Puts 1. Prev. day's open int., Calls 412 Puts [illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.25	95.03	-0.03	-	[illegible]	[illegible]	[illegible]
Jun	94.33	95.07	-0.05	95.13	[illegible]	[illegible]	[illegible]
Sep	95.02	-	-	95.14	[illegible]	[illegible]	[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.80	95.81	-0.02	-	[illegible]	[illegible]	[illegible]
Jun	95.94	95.94	-	-	[illegible]	[illegible]	[illegible]

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Feb	Mar	Apr	Jun	PUTS Feb	Mar	Apr	Jun
97125	0.015	0.030			0.125	[illegible]		
97250	0.005	0.015	0.050	0.060	0.240	[illegible]	[illegible]	[illegible]
97375	0	0.005			0.380	[illegible]		
97500	0	0	0.015	0.025	0.485	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls 34886 Puts 12840. Previous day's open int., Calls [illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
98750	0.065	0.100	0.130	[illegible]	[illegible]	[illegible]
98875	0.030			[illegible]		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2825 Puts [illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Exeter Trust Limited	7.00	●Singer & Friedlander	6.00
Allied Irish Bank (GB)	6.00	Financial & Gen Bank	6.00	Smith & Williamson	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	Sun Bank	6.00
Banco Bilbao Vizcaya	6.00	Habib Bank AG Zurich	6.00	TSB	6.00
Bank of Cyprus	6.00	Heritable & Gen Inv Bk.	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	C. Hoare & Co	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	●SG Hambros Bank & Trust	6.00	Whiteaway Laidlaw	6.00
Bank of Scotland	6.00	Hongkong & Shanghai	6.00	Yorkshire Bank	6.00
Barclays Bank	6.00	Investec Bank (UK) Ltd	6.00		
Brit Bk of Mid East	6.00	Julian Hodge Bank	6.00		
●Brown Shipley & Co Ltd	6.00	●Leopold Joseph & Sons	6.00		
Citibank NA	6.00	Lloyds Bank	6.00		
Clydesdale Bank	6.00	Midland Bank	6.25		
The Co-operative Bank	6.00	NatWestminster	6.00		
Coutts & Co	6.00	●Rea Brothers	6.00		
Cyprus Popular Bank	6.25	Royal Bk of Scotland	6.25		
Duncan Lawrie	6.00	Scottish Widows Bank	6.75		

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

Lower crops push up palm oil prices

By T.J. Tan in Kuala Lumpur and Paul Solman in London

Falling palm oil production from Indonesia and Malaysia is pushing up prices and contributing to increased competition in the oilseeds market from other crops such as soyabean and rapeseed.

Malaysia's crude palm oil production fell 15 per cent month-on-month in December, according to growers, while Indonesian traders said palm oil exports could fall by more than half to about 100,000 tonnes this month.

Tight supply for immediate delivery has pushed up the spot price of palm oil on the Malaysian Commodity and Monetary Exchange so that it is commanding a premium of M$60 a tonne over the benchmark March futures contract. Normally, the premium is M$10-M$20.

"Indonesian palm oil exports fell by about 500,000 tonnes in 1998, while Malaysia's were unchanged," one analyst said.

"However, world exports of vegetable oils were up about 100,000 tonnes, which led to a net swing of about 600,000 tonnes away from palm oil to other oils such as soyabean, rapeseed and canola. The lower production is likely to add to that swing," he said.

The October-February period is a time of low palm oil production, but heavy rain has cut the Malaysian harvest more than expected.

Kumpulan Guthrie, a leading plantation company, said its output in December fell 13 per cent from November. Malaysian output in November was 734,767 tonnes, down 7.5 per cent from October.

According to growers, normal oil with less than 5 per cent free fatty acid content is not readily available in Johor, a vital growing area in southern peninsular Malaysia, where heavy rains have disrupted harvesting. Delays in harvesting have resulted in oil palm fruits becoming over-ripe and lowering the quality of the oil.

Sabah, an important palm oil producing state in east Malaysia, has been hit by tropical storm Hilda, while plantations in Tawau and Sandakan suffered production falls of about 20 per cent month-on-month in December.

In Indonesia, traders report strong demand ahead of the Muslim end-of-Ramadan festivities later this month, while price rises in the domestic market have also discouraged exports.

The price of refined palm olein, used as cooking oil, is about Rp3,500 (45 US cents) a kg, giving it a premium of about $80 a tonne over the export price. The price is above the government's target of Rp3,000 a kg.

According to traders, exports could remain low in February if Indonesia does not cut export taxes on palm oil as expected.

The government has said it might reduce taxes by 20 percentage points from the current 60 per cent for crude palm oil and 55 per cent for palm olein. Traders said cutting the tax could cause the domestic price of palm olein to increase sharply.

Analysts said palm oil supplies were likely to increase during the second quarter as Malaysia returns to normal production levels.

"Supplies from Indonesia are harder to gauge because of the impact of the export taxes," one analyst said. "Indonesia's absence from the market has added to the premium in palm oil prices, and that shows signs of continuing."

APPLES AND PEARS CUTTINGS SAID TO HAVE BEEN STOLEN BY VISITING GROWERS

NZ finds pirated varieties in Chile

By Terry Hall in Wellington

ENZA, the apple and pear board of New Zealand, has accused Chilean orchardists of stealing two new apple varieties with enormous export potential.

Pat Murray, a spokesman for the company, said 65,000 trees from the Pacific Rose and Southern Snap varieties, which have been patented internationally, have been found growing in Chile, apparently from cuttings stolen by visiting apple growers three years ago.

Chile has assured New Zealand it will co-operate in suppressing the varieties, which are owned by Hortresearch, the government research group that developed them. ENZA has worldwide commercial rights.

This is the second international incident that has arisen over the new apple strains. In 1997 a visiting Chinese delegation was caught trying to smuggle out cuttings.

The Chinese government subsequently apologised and said the scientist responsible had been disgraced. Mr Murray said the incidents were no different from people stealing industrial secrets.

ENZA has placed advertisements in Chilean newspapers, warning apple growers to scrap the stolen crop or face legal action.

Peter Silcock, chief executive of the Fruitgrowers Federation, said it was difficult to stop people taking cuttings from orchards. He thought the best New Zealand could do was warn of the consequences of growing the pirated produce.

"The future of the fruit industry is dependent on developing new varieties, and New Zealand is acknowledged as a world leader in this," he said.

Guatemala fretful over cardamom

A poor harvest and falling demand are squeezing the trade, says **James Wilson**

The wrinkled green pods that Rodolfo Rivera juggles in his hand do not look very valuable. But these seeds have become so expensive they have to be sent for export accompanied by armed guards.

"This is what causes us so many sleepless nights," says Mr Rivera, a resigned expression on his face.

Mr Rivera's trade – and the cause of his fitful slumbers – is cardamom, one of the most highly coveted of spices, whose price has rocketed this year because of a dreadful harvest in Guatemala, the world's main supplier.

Exporters such as Mr Rivera are paying three or four times more than they did 12 months ago when they buy cardamom from the select growing areas in Guatemala's highlands.

Security in Guatemala is already a problem, and with the spiralling price of cardamom Mr Rivera is worried that the shipments his Excard company sends across the country may be hijacked before they reach the Caribbean port of Santo Tomás de Castilla.

Moreover, Mr Rivera's problems do not end once the product reaches the port.

His business is being squeezed because prices in the main market for cardamom – the Middle East, where it is used to make *gahwa*, an aromatic cardamom coffee – do not yet reflect his increased costs at home. Consumers have cut back on purchases. "Things are getting worse. There is terrible uncertainty," says Mr Rivera.

A happy combination of climate and topography has turned Guatemala into the world's biggest cardamom producer since the crop was introduced experimentally in the 1920s.

The plant needs high altitude with plenty of heat and rainfall, conditions that make Guatemala's highlands ideal. The country accounts for about 90 per cent of all world exports, topping India, where much of the cardamom grown is for internal consumption.

Last season's Guatemalan crop was about 18,000 tonnes but this season the harvest, which began in October, has been sharply hit by the lingering effects of last year's El Niño, the freak weather phenomenon. A prolonged drought stopped the cardamom cherries forming on the plants.

Guatemala accounts for about 90 per cent of world cardamom exports — Panos Pictures

The result has been a virtual wiping-out of the crucial first cut of the cherries, one of three cuts throughout a normal harvesting season. The first cut should have provided about 40 to 50 per cent of the crop, and its failure means this season's crop is forecast to fall to only 8,000 tonnes.

Mr Rivera says there will be very little to come from a third cut in February by the thousands of peasants who grow the cardamom in very remote areas. Some areas are predicting harvests will slump by 70 per cent.

Alfredo Dieguez, a middleman in the cardamom trading town of Cobán, is doubtful about the third cut. "The price has gone up four-fold. Last season we were working on an average of Q600 ($86) per quintal (46kg sack). Now we are around Q2,000 per quintal and I think we will reach Q2,500 in a month or two."

So far, prices in main markets such as Saudi Arabia have not reacted accordingly. Mr Rivera says importers are buying from him at about $10 per kg compared with $6-$7 last season.

However, Mr Dieguez says the current shortage of cherries has come after six years of oversupply, adding that exporters have cried wolf in the past. "I think soon in the Middle East they will realise the shortage and prices will react," he says.

In spite of the higher prices, Guatemala's revenues from the export of cardamom fell by 20 per cent in 1998.

Already, Middle Eastern buyers are importing smaller quantities, hitting exporters such as Mr Rivera, who are paying more to buy cardamom – and borrowing at high local interest rates – but not reaping the returns.

Reliant on a high volume of exports to turn a profit in a business where he says margins are low, Mr Rivera worries that consumers in the Middle East – the destination for 90 per cent of Guatemala's exports – will forgo cardamom because of the price rises and their own economic woes caused by the oil price slump.

"The *big risk is that* demand will fall, and when production is increased, habits will have changed. It is a possibility that it will cause a fall in real demand," he says.

LME to launch two new contracts

MARKETS REPORT

By Gillian O'Connor and Paul Solman

Lord Bagri, London Metal Exchange chairman, confirmed yesterday that the exchange would introduce two new contracts this summer: silver and an index contract. The last new LME contract, for aluminium alloy, was launched in 1992. The index contract will be a weighted index of the six metals traded on the LME.

An earlier LME silver contract was killed off in 1989 because of a lack of interest. Silver is already traded on Comex, the American exchange, which plans to start trading aluminium (now one of the LME's most important markets) in the spring. Some analysts say the LME's launch of a silver contract is a tit-for-tat move. But traders in New York said yesterday they do not see it as a threat to Comex.

Aluminium for three-month delivery hit a five-year low of $1,209 a tonne before the close, following another massive rise in LME stocks. Analysts said the rise reflects the transfer of material from unofficial to official stockpiles, but there is a large underlying surplus.

Meanwhile, world oil prices slipped back as the market awaited the weekly report from the American Petroleum Institute, delayed for a day by Monday's US public holiday.

In late trading on London's International Petroleum Exchange, benchmark March Brent blend was $10.62 a barrel against Tuesday's close of $10.81.

IPE members met yesterday before next week's board meeting, which will debate the planned merger with the New York Mercantile Exchange. The IPE did not release details of the discussions.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

[illegible]

Precious Metals continued

[illegible]

ENERGY

[illegible]

PRECIOUS METALS

[illegible]

GRAINS AND OIL SEEDS

[illegible]

PULP AND PAPER

[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

FUTURES DATA
All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London $ per m/t. Iranian pistachios 28/30 raw (in shell) naturally opened (round); crop 1998 as follows: 28/30 at $2,750, CFR MEP, 20/22 at $3,550 CFR MEP. Turkish hazelnuts 13/15 and 11/13, crop 1998 indication $4,350 CFR. Market quiet. Indian cashews crop 1998 CFR from top shippers. W320 at $5,800, W240 at $6,900. Market unstable on speculation over Indian crop. US almonds standard 5 per cent crop 1998 at $3,600. Actual 1998 crop at 480m lb. Indication for crop 1999 at 3,350 FAS for St.5 per cent. All FAS. Moldovian walnuts crop 1998 offered as light halves and pieces at $3,750 CFR MEP (duty paid).

SOFTS

[illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jan 20	Jan 19	month ago	year ago
1474.9	1501.9	1469.2	1760.6

■ CRB Futures (Base: 1967 = 100)

Jan 19	Jan 18	month ago	year ago
189.95	192.74	–	–

■ GSCI Spot (Base: 1970 = 100)

Jan 19	Jan 18	month ago	year ago
133.59	135.06	128.69	171.010

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+26,900	to 724,125
Aluminium alloy	-140	94,920
Copper	+100	610,000
Lead	-175	108,225
Nickel	-264	65,562
Zinc	-175	318,875
Tin	+35	7,985

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)Jan 15

	Latest Price	Day's change	High	Low	Vol	Open Int
Feb	63.150	+0.175	63.675	62.650	7,453	33,016
Apr	65.600	-0.050	66.150	65.300	5,161	40,711
Jun	65.025	–	65.450	64.775	2,319	20,918

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

[illegible]

■ COFFEE LIFFE	Mar	May	Mar	May
1650	57	66	42	101
1700	34	50	69	135
1750	20	34	105	169
■ COCOA LIFFE	**Mar**	**May**	**Mar**	**May**
900	30	58	22	31
925	16	45	35	43
950	10	34	52	57
■ BRENT CRUDE IPE	**Feb**	**Mar**	**Feb**	**Mar**
1050	61	-	33	61
1100	30	-	-	89
1150	16	46	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$10.36-0.49x	-0.435
Brent Blend (dated)	$10.81-0.88	-0.385
Brent Blend (Mar)	$10.63-0.70	-0.395
W.T.I.	$12.07-2.09x	-0.345
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$121-123	-1
Gas Oil ‡	98-99	-4
Heavy Fuel Oil	$64-65	+1
Naphtha	$93-95	-2
Jet fuel	$112-114	-4
Diesel	$102-103	-3.5
■ NATURAL GAS (Pence/therm)		
Bacton (Feb)	9.45-9.55	-0.07
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$285.85	-0.10
Silver (per troy oz)♣	515.50c	+5.00
Platinum (per troy oz.)	$353.50	+0.50
Palladium (per troy oz.)	$321.50	-1.00
Copper	71.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	18.77r	
Tin (New York)	244.5	+4.0
Cattle (live weight)	88.77p	+0.09*
Sheep (live weight)	67.63p	-1.46*
Pigs (live weight)†	43.26p	-1.64*
Lon. day sugar (raw)	$192.10	-14.5
Lon. day sugar (wte)	$237.00	-10.5
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Feb)♥	52.75p	
Rubber (Mar)♥	53.25p	
Rubber (KL RSS No1)	280.00m	
Coconut Oil (Phil)§	755.00	+5.00
Palm Oil (Malay.)§	580.00	-20.00
Copra (Phil)§	470.0y	
Soyabeans (US)	154.0y	
Cotton Outlook'A' index	55.70	-0.20
Wooltops (64s Super)	315p	

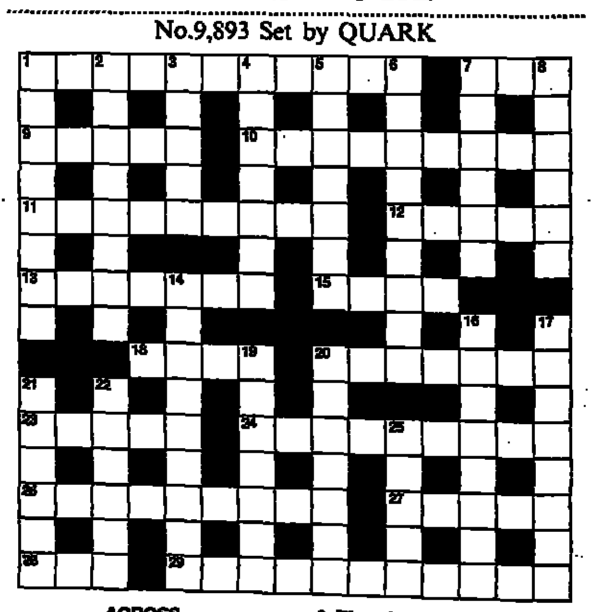
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. x Mar. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 2,984 head of pigs sold.‡ 15Pt/50, 97-100

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,893 Set by QUARK



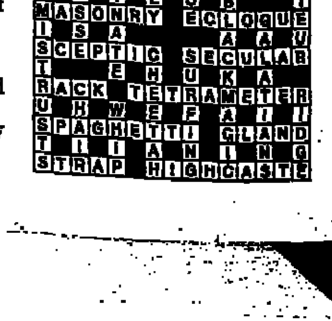
ACROSS

1 Cut back motorway: the country's test (11)
7 A minor flap in the establishment (3)
9 Sign of sleep around graduate (one who wanders) (8)
10 RA in rarest muddle – out of time and owing money (2,7)
11 To a doctor weight is a grave feature (9)
12 Slippery customer, about 90, to do well (5)
13 Being only half lord, out of order, not honourable (7)
15 A "goodbye", a "hallo", covers informal agreement (4)
18 Check the pavement edge, say (4)
20 *Made* a record of TV item. See the dictionary?(7)
23 The last one to describe a final effort (5)
24 No writer in a row would be for getting at the contents (3-6)
26 It should provide cleaner television (4,5)
27 Insignificant person appearing in November? (5)
28 Nothing, we hear, can be in order (3)
29 Canned diner goes round at this, possibly (6-5)

DOWN

1 Inset in English prepared for a man of science (8)
2 'urt the catkin? A necessity in wartime (8)
3 The river's hard work (not Test) (5)
4 Sapid old English cooking, but rather fatty (7)
5 Figurative language of eg army, one modified (7)
6 Be overprotective towards the minder (9)
7 Roof covering of church singled out? (6)
8 Rock overturned seaman, an old sailor (6)
14 Sweep up the forest twigs etc (9)
16 County's shock: business decline (8)
17 Charming girl in short story losing fellow (8)
19 Marsh bird? Bet it confused the navy (7)
20 Dated label seen in climbing plant (7)
21 End of game arising for inventor (6)
22 Race stress (6)
25 Puzzled, assumed a particular attitude (5)

Solution 9,892



هكذا من الاصل

LME to launch two new contracts

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

MFS Meridian Funds

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Aberdeen Prolific International Fund Plc

Global Asset Management (GAM)

AIB Investment Managers Limited

HSBC Asset Management - Contd.

RMB Global Fund

Christows Investments Plc

Lazard Investment Funds Ltd

IRELAND (REGULATED)(**)

IRELAND (FSA RECOGNISED)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]

JERSEY
(REGULATED)(**)

[illegible]

LUXEMBOURG
(FSA RECOGNISED)

[illegible]

LUXEMBOURG
(REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Allied Domecq	N	473xd	-13	646	365	2,113	5.4	12.4
Bulmer (HP)		305xd	-1	412½	291½	2	5.1	13.6
Burn Stewart		14½		35	7	70	-	-
Diageo	◆N	662½	-7½	*785	449½	3,241	3.0	20.0
Glenmorangie A	†	675	—	800	675	-	2.7	18.3
B	†	827½	—	900	810	-	1.1	44.9
Highland		258½	-4	325	225	517	4.6	11.7
5¼pc Cv Sb Bd		97xd		100½	88	-	5.9	-
Kirin Y		773½xd	-5¼	814¼	457¼	-	0.8	58.7
Matthew Clark	♣	242	—	244	115	-	6.7	8.2
Merrydown		28½	—	57½	18½	-	-	◆
Seagram C$		£25¼	+¼	£28¼	£14¼	-	1.0	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Pochins	†	98½	—	*128½	98½	-	4.5	11.4
Prowting	†	93½	-1	139½	87½	7	6.4	6.3
Redrow	♣	160	+1	198	124½	7	3.1	10.4
SGB Group		164½	—	288	132½	-	4.5	10.4
Swan Hill	†	41	+1	84½	32½	484	8.7	6.6
Tay Homes	♣	129	+½	142½	105½	3	8.1	8.1
Taylor Woodrow	♣N	139½	-9½	238	132½	1,457	3.7	9.1
Tilbury Douglas	♣†	227	+3	*308	190	100	5.4	13.2
Try		18½	—	28¼	12¼	45	7.1	5.1

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

MEDIA - Continued

PROPERTY - Continued

SUPPORT SERVICES

TRANSPORT - Continued

AIM - Continued

WATER

OIL EXPLORATION & PRODUCTION

INVESTMENT COMPANIES

AMERICANS

OIL, INTEGRATED

CANADIANS

OTHER FINANCIAL

SOUTH AFRICANS

LEISURE & HOTELS

PROPERTY - Continued

SUPPORT SERVICES - Continued

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRADNS		[illegible]	...	[illegible]	£4770	-	-	-

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list.

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
10 Group		1	...	¾	[illegible]	-	-	-
AFA Systems		97½		181	[illegible]	-	-	-
AMCO		85		128½	93½	-	9.2	7.1
ATA		117½	-10	157½	117½	-	2.1	9.2
Adfitel Group		45½		67½	45½	-	-	7.8
Access Plus		185		271	175	-	3.4	15.5
African Gold		2½		7¼	2	-	-	-

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

LIFE ASSURANCE

RETAILERS, GENERAL

TELECOMMUNICATIONS

MEDIA

PHARMACEUTICALS

TOBACCO

TRANSPORT

PROPERTY

GUIDE TO LONDON SHARE SERVICE

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1670 a year for each security shown, subject to the Editor's discretion.

FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 open 24 hours including weekends or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0891 43 8086

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Revived interest rate hopes drive shares ahead

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London's equity market moved confidently back on to the upside trail yesterday, responding to weak retail sales data for December, which led to hopes of further *interest rate cuts*.

Adding to the generally bullish mood in London was widespread relief that the speech made by Alan Greenspan, chairman of the US Federal Reserve, to the House of Representatives, did not lob any hand grenades into markets viewed by many observers as overvalued.

Mr Greenspan did allude to the strength of some stock markets, noting that it would be difficult to justify current stock prices given the current earnings outlook for US companies.

Those comments caused a *momentary blip in London* and New York, but dealers in London said Mr Greenspan had not gone out of his way to unhinge world stock markets. "He *did it before* and there really was a worry that he would do it again, *but I guess that the Asian*, Russian and latterly the Brazilian turbulence changed his mind," said one.

London was always looking to make progress yesterday. The FTSE 100 kicked off in good form in response to Wall Street's powerful overnight rally, which saw the Dow Jones Industrial Average recover *from an early 120 point slide* to finish the session 14 points ahead. Wall Street came in strong again in early trading yesterday.

Sentiment in London was given a big boost by the 0.9 per cent fall in retail sales during December, which shocked a market looking for a modest 0.2 per cent increase.

The UK interest rate cut story is now seen as being back on the agenda having been blown off course on Tuesday by the inflation report for December, which saw the underlying retail price index nudge ahead of *the government's 2.5 per* cent target.

Publication of the minutes of the January meeting of the Bank of England's monetary policy committee, after which UK interest rates were cut by 25 basis points, helped sentiment. Seven of the committee's members voted for the 25 basis points reduction, one for a 50 basis points cut and one for rates to be left unchanged.

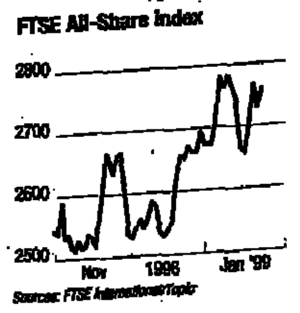
At the finish, the FTSE 100 index had managed a *78.0* gain at 6,105.6, having posted a three-figure advance at best to 6,129.1.

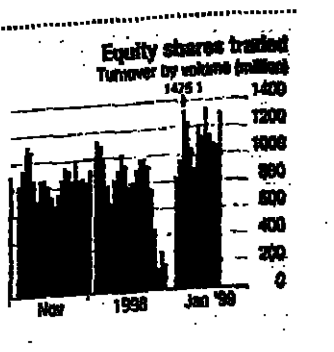
The rest of the market was *never as positive as the* leaders, but still looked in good form, with the FTSE 250 up 10.3 at 4,884.9 and the FTSE SmallCap 5.2 firmer at 2,108.1.

High-tech, software and internet stocks, which have been in the forefront of the US market's surge, continued to capture *the imagination* of many investors, with stocks such as Psion, Sage and Misys attracting institutional support.

The lesser known and more speculative internet stocks, meanwhile, were the talk of the market, with a handful recording startling gains. Those rises brought warnings from old market hands of the potential for an equally swift retreat *in stock* prices, which are seen as being driven to unsustainable levels.

Turnover in equities reached *1.3bn shares*.





Indices and ratios

FTSE 100	6105.6	+78.0
FTSE 250	4884.9	+10.3
FTSE 350	2894.2	+32.1
FTSE All-Share	2760.57	+29.83
FTSE All-Share yield	2.84	2.87
FT 30	3514.2	+23.7
FTSE Non-Fins p/e	23.98	23.81
FTSE100 Fut Mar	6140.0	+113.0
10 yr Gilt yield	4.40	4.42
Long gilt/equity yld ratio	1.54	1.53

Best performing sectors

1	Life Assurance	+3.3
2	Media	+3.2
3	Banks, Retail	+2.7
4	Telecommunications	+2.1
5	Engineering	+1.8

Worst performing sectors

1	Oil Exploration & Prod	-7.9
2	Electronic & Elect Equip	-1.9
3	Paper, Pckg & Printing	-1.6
4	Alcoholic Beverages	-1.4
5	Building Matls & Merchs	-1.2

Reuters hits new record

COMPANIES REPORT

By Peter John, Martin Brice and Joel Kibazo

A severe squeeze in Reuters *Group combined with fundamental* enthusiasm to send the shares to a new high.

The shares, which have risen by around a third since the beginning of the year, and outperformed the FTSE All Share index by about 27 per cent, jumped 88 to 868p on turnover of 15m, the best percentage performance in the Footsie. And after London closed, Reuters ADRs were trading more than 10 per cent higher in New York.

The shares have been helped by recent recommendations. Schroders, Salomon Smith Barney and Dresdner Kleinwort Benson have all tipped the stock. And yesterday it was featured in Morgan *Stanley Dean Witter's* UK Equity Model Portfolio.

Brian Newman, of Henderson Crosthwaite, said: "Volumes on Nasdaq [the US market which is heavily weighted in technology stocks] are running 50 per cent higher than last year and Reuters' Instinet product represents more than 15 per cent of Nasdaq business."

The rise has sent Reuters rating closer to the highly valued telecoms sector to which it is increasingly seen as comparable.

Positive comments on British Steel benefited the *stock, which has fallen from* a 52-week high of 172p to a low of 85½p. Traders said the company had arranged a series of meetings with analysts as the stock achieved one of the better performances in the FTSE 250. A broker, said to be HSBC, was thought to be positive on the shares, which gained almost *14 per cent, or 14¼ to 119p.* A note from CSFB set a price target of 145p in the short term and *200*p on an 18-month view.

The broker highlighted the cost reduction programme three times the European average, with a high yield and balance sheet strength.

Rumours *of a possible bid* for House of Fraser continued to circulate yesterday, helping the shares brush off further negative news for the retail sector.

A 0.9 per cent decline in UK retail sales in December only served to confirm the Christmas period gloom that cast a shadow over the sec*tor. The figure was worse* than anticipated by the market while the annual growth rates *slowed to* 0.7 per cent from 2.5 per cent.

However reports this week *suggesting* businessman Shami Ahmed had built up a stake of more than 2 per cent in House of Fraser kept the company shares on the buy list of many investors. The stock appreciated 4¼ to 92½p after trade of 4.7m.

Fashion clothing manufacturer Ted Baker moved strongly ahead, the shares gaining 4 to 114½p after it said sales in November and December 1998 had improved by 18 per cent.

The prospect of bumper internet sales continued to boost Great Universal Stores. The shares, extending recent strong gains, closed 49 up at 728p. Last week's strong trading statement and recommendations from several brokers have helped boost sentiment in the stock. Negative press comment once again hit Marks and Spencer. The shares declined 9¾ to 337½p, in busy trade of 24m.

Chocolate maker and retailer Thorntons fell 17½ to 196p, after it said a late surge at Christmas failed to make up for the slow start to the winter season. Like-for-like sales were down 1.8 per cent from the same period a year before.

Zeneca jumped 66 to £28.34 with dealers anticipating the re-weighting of the stock that will ensue from its merger with Astra of Sweden.

Also, the merger offer document is expected this week and at least one broker has cited the potential for further corporate activity from either SmithKline Beecham or Glaxo Wellcome once the details emerge. SmithKline fell 11¼ to 880½p but Glaxo gained 3 to £21.99.

Bid rumour lifts Shell

Prospects of consolidation within the oil sector focused on the majors as a story whistled through the market first thing that Shell Transport was poised to take a chunk out of Elf Aquitaine.

Dealers said Shell might consider buying Elf Gabon, the French company's exploration and production arm with a market value of $500m. Analysts said however that while Shell could afford the deal, recent restructuring and cost-cutting suggested the company's thoughts were more *internal. Shell added 3¼ at* 339p.

Cairn Energy fell 6¼ to 62p, Premier a penny to 15 and Lasmo 3 to 100p. All three companies are expected shortly to report dire full year figures undermined by *swinging write-downs*.

Lasmo dipped in spite of a strong "buy" note from Salomon Smith Barney, which has reviewed the prospects for the hard-pressed company along with those of *Enterprise*, a potential merger partner.

Salomon says "both companies are more *financially* robust than equity valuations imply". It has set a 170p share price target on Lasmo and a 390p target on Enterprise, which dipped 5 to 255p yesterday.

BP Amoco moved forward 14¼ to 914p. Goldman Sachs officially initiated coverage of the stock by adding it to the "recommended" *list*.

Norwich Union and Prudential moved forward 18¾ to 486½ and 40 to 935¼p respectively in response to new business figures from the two insurers.

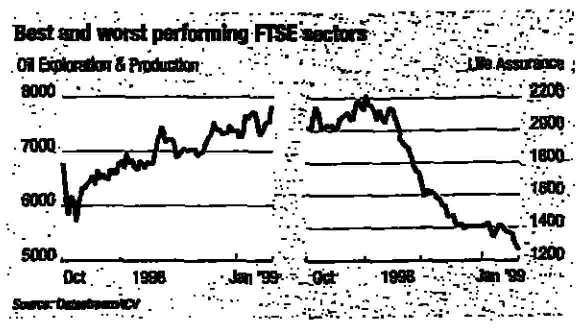
ICI rose 38 to 497½p after inclusion in Lehman Brothers' top Euro picks and ahead of full year figures in two weeks.

BAT fell 18 at 639p on profit-taking as President Clinton's State of the Union speech included a reference to the US Justice Department suing cigarette makers. HSBC Securities says the worries are overplayed and retains its "add" stance.

A poor outlook to current trading cast a shadow over First Leisure, which reported full year figures in line with market expectations. The group also refused to comment on recent takeover speculation. The shares tumbled 22 or 10.3 per cent to 192½p, the worst performance in the FTSE 250.

The company said deterioration in consumer demand since May has continued into the early months of the new financial year and remains a concern.

Shares in convenience stores group Alldays plunged after it shocked the market with a sharp decline in profits and halved the div*idend. The stock lost 35 or* nearly 48 per cent to 92½p.



FT 30 INDEX

	Jan 20	Jan 19	Jan 18	Jan 15	Jan 14	Yr ago	*High	*Low
FT 30	3514.2	3490.5	3557.6	3489.1	3439.3	3305.5	4094.9	2790.6
Ord. div. yield	2.90	2.84	2.89	2.96	3.01	3.31	4.22	2.72
P/E ratio net	23.08	22.84	23.23	22.66	22.31	21.40	25.41	15.80
P/E ratio nil	22.99	22.74	23.14	22.57	22.22	21.21	25.19	15.71

FT 30 since compilation: high 4094.9 7/15/98; low 49.4 6/26/40 Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3490.5	3527.8	3512.8	3512.2	3501.6	3508.3	3501.3	3505.0	3532.6	3482.0

STOCK MARKET TRADING DATA

	Jan 20	Jan 19	Jan 18	Jan 15	Jan 14	Yr ago
SEAQ bargains	81,839	82,095	87,501	90,460	80,986	64,683
Equity turnover (£m)†	-	na	5475.2	4021.0	4859.6	2239.5
Equity bargains†	-	na	76,213	66,547	67,173	57,805
Shares traded (m)†	-	na	1392.5	953.0	1148.0	702.6
Total market bargains‡	-	*na*	*89,020*	*80,078*	*80,659*	-
Total turnover (£m)‡	-	na	6498.8	5068.9	5882.7	-
Total shrs traded (m)‡	*1311.6	na	1577.2	1173.3	1357.6	-
Tradepoint turnover (£m)	43.3	32.4	24.0	24.0	34.8	32.3
Tradepoint shrs traded(m)	10.5	10.0	7.8	10.8	11.2	10.5

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	927	*Total Highs*	72	*Total contracts*	51,863
Total Falls	532	Total Lows	67	Calls	24,506
Same	1,423			Puts	27,357

Jan 20 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6105.0	6140.0	+113.0	6160.0	6065.0	20751	170922
Jun		6181.0	+113.0			0	15394
Sep		6224.0	+111.0			0	650

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Mar	4885.0	+10.0	0	6933
Jun	4902.0	+10.0	0	300

FTSE 100 INDEX OPTION (LIFFE) (*6105) £10 per full index point — [illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — [illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

TRADING VOLUME

Major Stocks yesterday.

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Jan 20) 1 € = 13.7603 Sch

BELGIUM/LUX (Jan 20) 1 € = 40.3399 Frs

FINLAND (Jan 20) 1 € = 5.94573 Mk

FRANCE (Jan 20) 1 € = 6.55957 Frs

GERMANY (Jan 20) 1 € = 1.95583 Dm

NETHERLANDS (Jan 20) 1 € = 2.20371 Fl

IRELAND (Jan 20) 1 € = 0.78756 Punt

ITALY (Jan 20) 1 € = 1936.27000 Lire

PORTUGAL (Jan 20) 1 € = 200.48200 Esc

SPAIN (Jan 20) 1 € = 166.38600 Pts

EUROPE (NON-EMU)

CZECH REP (Jan 20 / Koruna)

DENMARK (Jan 20 / Kr)

GREECE (Jan 20 / Drachma)

NORWAY (Jan 20 / Kroner)

POLAND (Jan 20 / Zloty)

SWEDEN (Jan 20 / Kronor)

SWITZERLAND (Jan 20 / Frs)

TURKEY (Jan 15 / Tk Lira)

PACIFIC

JAPAN (Jan 20 / Yen)

HONG KONG (Jan 20 / H K $)

INDONESIA (Jan 15 / Rupiah)

MALAYSIA (Jan 15 / MYR)

NEW ZEALAND (Jan 20 / NZ $)

SINGAPORE (Jan 20 / S$)

AUSTRALIA (Jan 20 / Aust$)

SOUTH KOREA (Jan 20 / Won)

TAIWAN (Jan 20 / TW $)

THAILAND (Jan 20 / Baht)

AFRICA

SOUTH AFRICA (Jan 20 / Rand)

AMERICAS

CANADA

TORONTO (Jan 20 / Can $)
4 pm close

MONTREAL (Jan 20 / Can $)
4 pm close

MEXICO (Jan 20 / Peso)
12.30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JANUARY 19 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JANUARY 18 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	211.07	1.6	188.69	151.68	209.41	219.69	0.8	3.34	207.79	186.50	150.13	206.32	217.84	219.96	163.86	207.99
Austria (21)	172.59	-0.9	154.29	124.03	151.09	151.09	-1.0	2.31	174.14	156.30	125.81	152.57	152.57	253.73	166.45	186.44
Belgium (22)	422.63	-0.3	377.83	303.72	362.25	362.25	-0.3	1.66	423.77	380.35	306.17	363.52	363.52	446.95	257.09	257.25
Brazil (32)	106.70	-0.5	95.39	76.68	105.86	310.31	2.7	2.91	107.26	96.27	77.50	106.50	302.07	269.34	89.32	223.60
Canada (117)	209.03	-1.0	186.87	150.22	207.38	231.31	-1.0	1.89	211.17	189.54	152.57	209.68	233.57	248.78	159.94	205.19
Denmark (34)	498.03	-0.2	445.24	357.91	494.12	434.09	-0.4	1.62	499.05	447.92	360.56	495.53	435.88	537.33	420.12	461.58
Finland (29)	646.60	2.5	578.06	464.68	695.17	695.17	2.5	1.45	630.60	566.00	455.61	678.51	678.51	646.60	286.98	286.98
France (75)	335.82	-0.9	300.23	241.34	297.72	297.72	-1.0	2.11	339.03	304.30	244.95	300.81	300.81	354.45	232.70	232.70
Germany (55)	279.16	0.4	249.57	200.62	244.57	244.57	0.3	1.33	278.00	249.52	200.86	243.75	243.75	325.61	226.35	226.80
Greece (36)	379.18	-0.5	338.98	272.49	376.20	758.50	-0.7	1.12	381.22	342.17	275.44	378.54	761.68	388.53	211.47	–
Hong Kong, China (67)	311.07	-1.3	278.10	223.55	308.63	309.46	-1.3	3.96	315.25	282.96	227.77	313.03	313.61	362.55	186.64	308.69
Indonesia (26)	46.13	0.0	41.24	33.15	45.77	238.44	0.0	1.28	46.13	41.41	33.33	45.81	238.44	64.52	19.04	41.25
Ireland (16)	566.99	0.5	506.88	407.46	542.11	542.11	0.4	1.80	564.14	506.35	407.59	539.83	539.83	605.85	398.15	414.24
Italy (53)	176.09	-2.1	157.42	126.54	219.39	219.39	-2.1	1.27	179.78	161.37	129.89	224.18	224.18	192.64	124.47	124.47
Japan (445)	98.44	0.3	88.00	70.74	97.68	70.74	-0.2	1.06	98.15	88.10	70.91	97.46	70.91	109.73	76.83	100.72
Mexico (29)	1003.75	-2.0	897.35	721.34	995.86	11295.48	-1.0	2.27	1023.96	918.06	739.82	1016.75	11413.80	1733.73	787.15	1643.42
Netherlands (26)	526.36	0.8	470.57	378.27	456.15	456.15	0.7	2.07	522.22	468.72	377.30	452.92	452.92	582.73	394.92	408.41
New Zealand (18)	64.87	1.7	58.00	46.62	64.36	64.21	1.8	4.54	63.81	57.27	46.10	63.36	63.05	77.84	45.68	75.37
Norway (37)	237.88	0.7	212.67	170.95	236.02	239.80	0.5	2.40	236.19	211.99	170.65	234.52	238.68	357.71	181.86	297.17
Philippines (22)	94.16	-1.7	84.18	67.67	93.42	179.95	-1.6	0.82	95.82	86.00	69.23	95.14	182.65	106.98	42.48	74.51
Portugal (18)	266.61	-0.1	238.35	191.60	315.22	315.22	-0.1	1.04	266.74	239.42	192.72	315.63	315.63	299.39	184.13	–
Singapore (41)	231.80	0.1	207.05	166.44	229.78	179.48	0.0	1.58	231.49	207.77	167.25	229.86	179.48	246.74	102.45	186.70
South Africa (38)	191.69	-0.8	171.37	137.76	190.19	253.33	0.5	3.74	193.15	173.36	139.55	191.79	252.04	346.20	151.55	246.06
Spain (30)	402.10	-0.9	359.47	288.97	436.70	436.70	-1.0	1.86	405.65	364.09	293.06	440.91	440.91	435.19	283.20	283.20
Sweden (44)	540.96	1.6	483.61	388.76	536.71	620.68	0.3	1.84	532.68	478.11	384.86	528.92	618.63	628.19	379.18	464.62
Switzerland (30)	418.23	0.0	373.90	300.56	414.95	356.63	-0.5	1.20	418.14	375.30	302.11	415.19	358.44	441.65	307.73	334.67
Thailand (34)	25.86	0.4	23.12	18.58	25.66	36.64	0.7	2.59	25.75	23.12	18.61	25.57	36.40	33.84	8.15	21.36
United Kingdom (207)	385.80	-1.1	344.91	277.25	382.77	344.91	-1.4	2.86	389.90	349.95	281.70	387.15	349.95	401.84	307.96	337.48
USA (615)	516.19	0.8	461.48	370.96	512.14	516.19	0.8	1.27	512.34	459.85	370.17	508.73	512.34	525.31	390.12	392.11
Americas (793)	457.80	0.7	409.27	329.00	454.20	388.67	0.7	1.29	454.74	408.16	328.55	451.54	388.00	466.36	347.58	355.42
Europe (733)	386.19	-0.4	327.37	263.16	383.31	332.44	-0.7	2.04	387.78	330.09	265.71	385.17	334.78	388.24	282.63	290.99
Eurobloc (345)	106.71	-0.3	95.40	76.68	101.18	101.18	-0.3	1.71	106.99	96.03	77.30	101.53	101.53	113.92	81.53	–
Nordic (144)	524.21	1.5	468.64	376.72	520.09	518.34	0.8	1.73	516.55	463.63	373.21	512.91	514.26	555.97	360.04	410.95
Pacific Basin (729)	107.21	0.3	95.85	77.05	106.37	80.09	-0.2	1.56	106.92	95.97	77.25	106.17	80.26	119.48	82.88	108.84
Euro-Pacific (1462)	214.91	-0.2	192.13	154.44	213.22	174.87	-0.6	1.90	215.41	193.34	155.63	213.88	175.86	221.79	166.00	184.57
North America (732)	495.44	0.7	442.92	356.05	491.55	496.58	0.7	1.28	492.05	441.64	355.51	488.58	493.17	504.30	374.82	380.11
Europe Ex. UK (526)	343.55	-0.1	307.22	246.97	340.95	316.21	-0.3	1.64	344.07	308.82	248.59	341.65	317.27	366.32	258.94	258.94
Europe Ex. Eurobloc (388)	99.19	-0.6	88.67	71.28	98.41	97.77	-1.1	2.38	99.78	89.56	72.09	99.08	98.82	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (181)	101.08	0.3	90.36	72.64	100.28	95.81	-0.3	1.41	100.72	90.40	72.77	100.01	96.09	109.21	75.16	–
Pacific Ex. Japan (284)	189.17	0.2	169.12	135.95	187.69	192.00	-0.1	3.41	188.78	169.44	136.40	187.45	192.21	218.04	128.26	186.71
World Ex. Eurobloc (1948)	108.30	0.4	106.79	90.83	105.46	104.45	0.2	1.54	105.90	105.82	90.98	105.16	104.21	108.03	83.09	–
World Ex. US (1678)	213.83	-0.3	191.16	153.67	212.15	179.79	-0.6	1.91	214.42	192.46	154.92	212.91	180.80	221.91	165.95	187.63
World Ex. UK (2086)	304.13	0.4	271.89	218.56	301.74	270.26	0.3	1.42	302.86	271.83	218.81	300.72	269.40	311.48	236.11	245.54
World Ex. Japan (1848)	416.92	0.3	372.73	299.62	413.65	405.50	0.2	1.63	415.82	373.22	300.43	412.88	404.79	427.99	320.58	328.87
The World Index (2293)	311.18	0.3	278.20	223.63	308.74	277.18	0.1	1.57	310.36	278.56	224.23	308.17	276.81	318.51	242.36	253.32

Emerging markets: IFC Investable indices

Dollar terms

4 pm close January 20

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

52 Week High	52 Week Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Price	Chng Prev. Close
123¾	66½	Xerox	1.44	1.2		17599	122⅞	116	116	[illegible]
65	37½	Xtra Corp			10	81	42	42	42	[illegible]
31	22½	Yankee Egy	1.38	5.8	22	38	23	23¾	23¾	[illegible]
52¾	27½	York Intr	0.48	1.2	22	688	41	40¾	40¾	[illegible]
24	6¼	Zapata			3	889	12	11½	11½	[illegible]
30½	20	Zenith Nat	1.00	4.6	16	130	21	21	21	[illegible]
6	5	Zenix Inc	0.70	11.2		385	6	6	6	[illegible]
14	8⅞	ZweigFd	1.08	10.8		382	10	10	10	
9	8⅝	Zweig Tot	0.84	9.5		518	8⅞	8	8	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial. d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 19	Jan 18	Jan 15	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9355.22	(c)	9340.55	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	106.56	(c)	106.70	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3177.85	(c)	3148.53	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	304.99	(c)	306.54	320.51 (8/10/98)	262.66 (9/1/98)	320.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 9489.14 (9381.74) Low 9165.73 (9124.02) (Theoretical)
Day's high 9399.25 (9342.67) Low 9210.01 (9127.16) (Actual)

Standard and Poors	Jan 19	Jan 18	Jan 15	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1250.88	(c)	1243.26	1275.09 (8/1/99)	927.69 (9/1/98)	1275.09 (8/1/99)	4.40 (1/6/32)
Industrials¥	1513.31	(c)	1496.91	1530.43 (8/1/99)	1077.40 (9/1/98)	1530.51 (8/1/99)	3.52 (30/6/32)
Financial¥	130.93	(c)	132.26	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	594.83	(c)	590.38	611.06 (8/1/99)	477.20 (8/10/98)	611.06 (8/1/99)	4.64 (25/4/42)
Amex Comp	707.61	(c)	709.29	753.67 (22/4/98)	563.75 (8/10/98)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	2408.17	(c)	2348.20	2408.17 (19/1/99)	1419.12 (8/10/98)	2408.17 (19/1/99)	54.87 (3/10/74)
Russell 2000	430.89	(c)	427.05	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/83)

RATIOS

	Jan 15	Jan 8	Dec 31	Year ago
Dow Jones Ind. Div. Yield	1.64	1.58	1.66	1.77
	Jan 6	Dec 30	Dec 23	Year ago
S & P Ind. Div. yield	1.11	1.17	1.17	7.49
S & P Ind. P/E ratio	39.11	37.82	37.69	25.96

US DATA

MARKET ACTIVITY

NYSE TRADING ACTIVITY

ACTIVE STOCKS

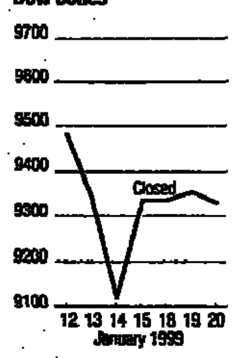
BIGGEST MOVERS

NASDAQ TRADING ACTIVITY

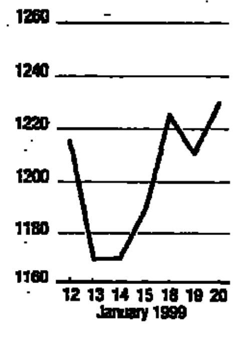
ACTIVE STOCKS

BIGGEST MOVERS

Dow Jones



FTSE Eurotop 300



JAPAN

TOKYO TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

GERMANY

FRANKFURT TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

FRANCE

PARIS TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

UK

LONDON TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1285.00	1263.50	+8.50	1269.50	1257.30	98,182	388,643
Jun	1278.50	1278.50	+9.70	1278.50	1278.50	201	7,204
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Mar	13800.0	13960.0	+160.0	14010.0	13740.0	27,461	191,370
Jun	13640.0	13800.0	+160.0	13800.0	13640.0	3	30,094

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	4199.0	4199.0	+75.0	4215.5	4138.5	62,089	806,427
Feb	4209.0	4209.0	+75.0	4214.5	4163.5	1,803	7,263
DAX							
Mar	5135.0	5224.0	+177.0	5224.0	5113.0	53,245	154,075
Jun	5152.0	5241.0	+167.0	5241.0	5152.0	2,605	26,333

OMX	Open	Sett Price	Change	High	Low	Est. vol	Open int.
Jan	728.00	719.00	-2.00	735.00	712.50	57,275	59,765
Feb	730.75	721.60	-2.40	736.75	715.50	41,169	77,679
EUREX							
Mar	7330.0	7325.0	+67.0	7380.0	7260.0	24,680	135,790
Jun	7299.0	7267.0	+61.0	7294.0	7226.0	836	3,114

WORLD MARKETS AT A GLANCE

Country	Index	Jan 20	Jan 19	Jan 18	1998/99 High	1998/99 Low	Yield	P/E
Argentina	General	16427.18	16097.80	15656.33	23486.50 23/3/98	12303.10 10/9/98	4.4	11
Australia	All Ordinaries	2872.7	2855.8	2830.4	2897.38 7/1/99	2458.20 1/9/98	3.3	22
	All Mining	589.9	592.2	593.2	713.10 23/4/98	489.80 31/8/98		

Stocks bounced on back of stronger Asian bourses and Tuesday's buoyancy in New York.

Country	Index	Jan 20	Jan 19	Jan 18	1998/99 High	1998/99 Low	Yield	P/E
Hungary	Bux	6550.92	6360.43	6340.15	9016.36 23/4/98	3775.82 21/9/98	na	na

Pushed higher on foreign buying. Telecom Matav jumped 4.8 per cent.

Country	Index	Jan 20	Jan 19	Jan 18	1998/99 High	1998/99 Low	Yield	P/E
India	BSE Sens.	(c)	3218.91	3278.58	4280.96 21/4/98	2764.16 20/10/98		
	Cdell 500	(c)	640.89	655.86	815.82 21/4/98	557.80 20/10/98	na	na

Country	Index	Jan 20	Jan 19	Jan 18	1998/99 High	1998/99 Low	Yield	P/E
Portugal	BVL 30	5081.27	5032.59	5034.62	8178.88 22/4/98	3998.08 2/10/98	2	28.2
	PSI 20	11725.78	11582.41	11617.97	14200.80 22/4/98	8114.91 2/10/98		
Russia	RTS	56.99	56.09	55.71	411.81 5/1/98	38.83 5/10/98	na	na

Ended with modest gains in low volumes.

THE NASDAQ-AMEX MARKET GROUP

4 pm close January 20

AMEX

4 pm close January 20

EASDAQ

STOCK MARKETS

Downbeat Greenspan fails to subdue equities

WORLD OVERVIEW

World markets brushed aside downbeat comments by Alan Greenspan, the US Federal Reserve chairman, who implied that US equities were over-valued, writes *Michael Peel*.

The Dow Jones Industrial Average rallied strongly after his testimony to the House of Representatives ways and means committee.

Most equity strategists think US earnings forecasts are too optimistic, given the likelihood of a global economic downturn this year.

Mr Greenspan seemed to support that view when he said: "The level of equity prices would appear to envision substantially greater growth of profits than has been experienced of late."

His comments made an *equally slight* impact in Europe where most markets made solid gains in quiet trading. The main interest centred on the electronics sector, which was lifted by the better-than-expected results announced by Microsoft on Tuesday.

High technology stocks performed strongly in Tokyo, where the Nikkei 225 average reached its highest level for almost a month. Property companies and banks also made gains after *a newspaper reported that* the government was considering offering financial help to the real estate sector.

Other Asian markets mostly moved forward, although China's hard currency B shares fell to record closing lows. The decline reflected a growing belief that company results for 1998 would be worse than expected.

The concern about earnings is the latest in a series of blows to investors in China. On Tuesday, the country's top financial officials began a meeting to avert a wave of failures among 244 international trust and investment corporations – the so-called itics – after the bankruptcy earlier this month of Gitic, the investment arm of the Guangdong provincial government.

Geoffrey Dennis, global emerging markets equity strategist at Deutsche Bank Securities, said foreign investors were increasingly worried that they would not get their money back in the event of further itic bankruptcies. "The other issue is whether you are going to get a devaluation," he said. "Put those two together and you have a powerful reason to get out of China."

In its latest report on China, Merrill Lynch says it remains cautious about prospects for both economic growth and corporate earnings. "This is not new," said Janet Krengel, of the global emerging markets strategy team. "It's just that people are becoming more aware of it."

Dow jumps on comments by Fed chief

AMERICAS

US shares surged and bond prices plunged after Federal Reserve chairman Alan Greenspan addressed Congress and investors reacted to a series of earnings reports, *writes John Labate in New York*.

The Dow Jones Industrial Average had gained 100.53 or 1.11 per cent by early afternoon to 9,456.15. The Standard & Poor's 500 index, even stronger in percentage terms, was 20.37 or 1.6 per cent higher at 1,272.37.

Leading the way were high-tech shares, with enthusiasm bolstered by Microsoft's strong earnings report, issued late on Tuesday. The Nasdaq composite index climbed 2.5 per cent or 59.05 at 2,467.22. Microsoft shares soared 6.5 per cent to $165¾.

Mr Greenspan's comments on the state of the markets helped to spark the morning rally. "While asset values are very important to the economy and so must be carefully monitored and assessed by the Federal Reserve, they are not themselves a target of monetary policy," Mr Greenspan said.

As stocks surged in morning trade, bonds sold off, with the benchmark long bond falling [illegible] to 100[illegible], yielding 5.210 per cent.

"Mr Greenspan implied that he's concerned about the market being overvalued but he's not going to do anything about it," said Hugh Johnson, chief investment officer at brokerage First Albany.

Hewlett-Packard led the Dow higher, up 6 per cent or $4¼ to $73¾. General Electric rose $⅝ to $101⅞ after the company released its earnings results.

But some large stocks sold off, including tobacco producer Philip Morris, down $2¾ to $48⅞ after President Clinton announced a new tobacco lawsuit in his State of the Union address.

Semiconductor shares rallied, with Xilinx up 13 per cent to $84¾ as analysts raised its rating after the company reported results and announced plans for a stock split. Internet stocks were mostly higher, with DoubleClick, the online advertising company, climbing 20 per cent or $17½ to $105¾ after reporting its results.

TORONTO was virtually flat at midsession as firm telecommunications and transport stocks were counterbalanced by lower metal and oil prices which dragged the resources sector down.

By midday, the TSE-300 composite index was 0.60 easier at 6,758.30 in volume of 40.9m shares as the market awaited comments from Gordon Thiessen, the Bank of Canada governor, on the Canadian economy.

Statistics Canada said it expected him to focus on the lower than expected level of inflation which clocked in at 1 per cent last month, compared with 1.2 per cent in November.

ATS Automation Tooling Systems crashed 37 per cent to a low of C$12 as investors dumped shares after the automated assembly line maker warned that revenues from a key client would be substantially lower than expected next year. The shares fell C$4.90 to C$14.10 in volume of more than 5m shares.

Siemens pushes Dax higher

EUROPE

Shares in FRANKFURT shot more than 2 per cent higher, undeterred by Wall Street's sluggish start and US Fed chief *Alan Greenspan's* cautious comments on the current level of US equity prices. The Xetra Dax index climbed 158.70 to 5,197.15.

Siemens roared €6.45 or 11.2 per cent higher to €61.05 as Lehman Brothers added the industrial group to its list of 10 "uncommon euro value" stocks and set a target price of €70 a share.

Late last year, Siemens announced a $2.4bn restructuring plan and Lehman said it believed the company was "capable of getting this sea-change right".

The high-tech sector was lifted by the overnight news from Microsoft of a 75 per cent surge in quarterly earnings, far beyond analysts' most optimistic estimates.

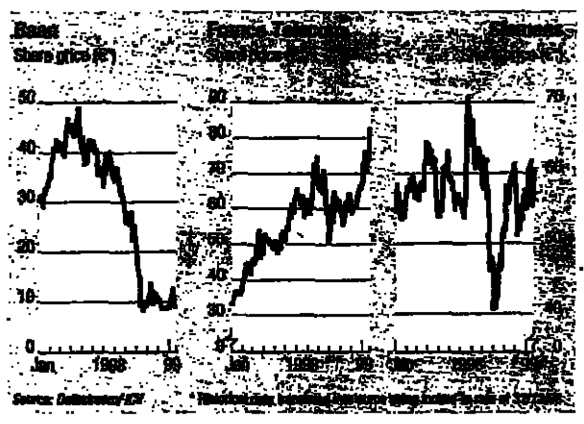
Engineering and telecoms group Mannesmann climbed €8.30 to €127.50 while Deutsche Telekom overcame early profit-taking to rise €3.20 to €40.50, still building on Tuesday's upgrade from Commerzbank.

The FTSE Eurotop 300 index rose 16.37 or 1.35 per cent to 1,228.92. See Euro Prices page.

SAP lost €8.20 to €304.80, its lowest level since early January 1998, after Dutch software group Baan said it expected a hefty fourth quarter loss.

HypoVereinsbank jumped €2.89 to €63 after Tuesday's Merrill Lynch upgrade. Cars and chemicals were helped by a stronger dollar. BMW rose €28 to €639 while DaimlerChrysler put on €2.50 to €92.50 after announcing moves to consolidate two subsidiaries. VW added €2.20 to €70.85 as it declined to comment on a report that it had bid for Investor's 45.5 per cent stake in Swedish truck and bus maker Scania.

PARIS was lifted 1.7 per cent by a record high for *market heavyweight* France Telecom in slightly better volume than normal recently. The CAC 40 index closed up 68.76 at 4,184.75.



The telecoms giant led the day's performance tables, hitting a session best €82.60 as investors chose to refocus on the sector. The shares closed 8.4 per cent higher at €82.40, up €6.40.

Oils leader Elf Aquitaine was in the thick of the action, jumping to €103.40 on talk that Shell was set to launch a takeover bid. The stock ended up €1.50 at €98.50.

Banks, buoyed by merger speculation, stayed firm for the third day running. BNP added €4.35 at €81.50 and Société Générale gained €3 at €158. Valeo shed €3 at €68 ahead of 1998 results due today.

Consumer products leader Moulinex came off €1.07 or 9.2 per cent at €10.53 on news of a 10 per cent fall in third-quarter sales plus a further round of redundancies.

AMSTERDAM extended its rally to 6 per cent in four days with the AEX index rising 5.69 to 554.57.

Philips powered ahead in the wake of Tuesday's stronger than expected earnings statement from US techs leader Microsoft. The shares ended €2.65 better at €67.55.

However, Baan tumbled 85 cents or 8.7 per cent to €8.95 on news of final quarter *losses of $250m*, twice the level of the consensus of brokers' forecasts.

Unique leapt €1.80 or 9.5 per cent to €20.70 after an upgrade to "buy" at Merrill *Lynch*.

Financials renewed their upward drive with Aegon *adding €2.50 at €100.55 and* ING rising €1.05 to €54.40.

Heineken jumped €1 to €51.30 after an upgrade to "market outperformer" at Goldman Sachs which set a target price of €55. Vedior, which is due to fall out of the benchmark AEX index on February 22, lost €1.20 at €15.75.

ZURICH closed higher, although below its best levels, boosted by the firmer dollar. The SMI index rose 92.5 to 7,300.2.

ABB was higher on news that the company sold its 50 per cent stake in the troubled Adtranz joint venture for $472m to its partner DaimlerChrysler. The shares jumped SFr49 to SFr1,565.

Nestlé, under heavy selling pressure recently, rebounded SFr27 to SFr2,657. Analysts expect the food group to report 1998 sales of SFr71.7bn-SFr72.3bn tomorrow.

Pharmaceutical heavy*weights Roche and Novartis* were higher. Roche certificates rose SFr120 to *SFr18,100 after* hitting an all-time high at SFr18,320 as the group drew strength *from* a positive US study about its Xenical drug. Novartis, expected today to report 1998 sales up 3-5 per cent, rose SFr34 to SFr2,879.

MADRID saw Telefónica rise €1.32 or 3.2 per cent to €42.35 as concern about Latin American exposure eased and sentiment was given a boost by news that the telecoms giant had lifted its shareholding in the Antenna 3 TV channel above 25 per cent.

BCH rose 16 cents to €10.38, but the banks sector had a quieter day after the recent excitement caused by the news that Santander and BCH were to merge.

Santander added 7 cents to €17.35 and BBV 13 cents at €13.73. The general index gained 8.39 to 889.11.

MILAN closed higher but off its peak after a day which saw speculative trade add to volatility. The Mibtel index closed 198 higher at 24,039.

Banca di Roma soared to a high of €1.48 after BCI said it envisaged a merger on an equal footing. By the close, Roma was 3.1 cents higher at €1.41 but BCI eased 2.9 cents to €5.746.

Written and edited by Michael Morgan, Jeffrey Brown, Michael Peel and Peter Hall

Mexico City climbs 3% but trade thin

Early gains were extended at midsession in MEXICO CITY as Wall Street recovered *from a dip following* testimony by Alan Greenspan, US Federal Reserve chair*man*.

The IPC index climbed 121.64 or 3.38 per cent to 3,725.07 although traders noted that even a moderate level of demand had an exaggerated impact on the bourse because volume was thin.

Heavyweight Telmex saw its ADRs climb $1¼ to $49¾ in New York while its local *L shares rose 75 centavos to* 25.30 pesos.

SAO PAULO put on *another* 3.7 per cent at midsession on optimism that the government would push a key piece of the country's anti-crisis programme through congress later in the day. The Bovespa index climbed 271 to 7,652.

Golds lead Jo'burg lower

SOUTH AFRICA

Johannesburg lost ground in thin volumes. The all share index ended off 33.2 at 5,722.3 in turnover of R682m, the lowest recorded this year.

Industrials hardened 9.3 to 6,674.4 but financials and golds racked up steep falls. *The former shed 90.7 at* 8,698.8 while golds fell 32.4 or 3.3 per cent to 951.2.

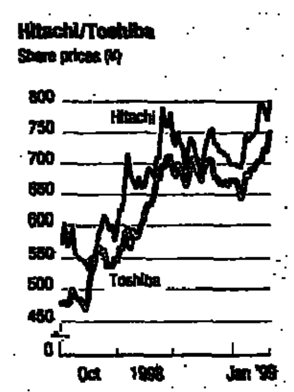
Mining leader Gold Fields bucked the weak trend, adding 130 cents or 11.8 per cent at R12.30 on plans for an unbundling.

Nikkei breaks above 14,000

ASIA PACIFIC

Shares in TOKYO broke above the key 14,000 level for the first time in almost a month, led by buoyant property, banking and high-tech shares, *writes Naoko Nakamae*.

The Nikkei 225 average rose steadily, climbing 1.9 per cent or 257.61 to 14,028.05, its highest point of the day. Volume was moderate at 452m shares, with 762 up and 360 down.



Other indices were also up, with the weighted Nikkei 300 index rising 1.6 per cent or 3.47 to 216.57, while the broader Topix index of first-sector stocks climbed 1.4 per cent or 15.27 to 1,090.07.

The real estate sector was the strongest performer of the day after reports that Japan's ruling Liberal Democratic party was considering injecting Y20,000bn into the ailing real estate market. The sector rose 3.6 per cent. *Sumitomo* Realty climbed Y33 or 9.9 per cent to Y366, while Mitsui Fudosan gained Y41 *or 4.9 per cent to Y873*.

Mitsui Trust, which announced on Tuesday it was planning to merge with Chuo Trust, was the most heavily traded stock of the day, gaining Y11 or 10.6 per cent to Y115. Chuo Trust lost Y46 or 8.9 per cent to Y470.

Among other shares seen as potential candidates for mergers or alliances, Sanwa Bank gained Y34 to Y1,020, Toyo Trust Y19 to Y280 and Fuji Bank Y21 to Y469. The banking sector as a whole climbed 2.5 per cent.

Semiconductor-related stocks received a boost from news that quarterly earnings at Microsoft had shot up 75 per cent. Toshiba gained 4 per cent to Y750 and Hitachi 3.6 per cent to Y800.

In Osaka, the OSE index rose 92.67 to 14,821.17.

WELLINGTON extended its rally to almost 5 per cent in three days with the 40 capital index gaining 24.92 to 2,219.62 after another session of good volumes.

The outlook for interest rates, with the most recent inflation data showing a negative trend, continued to fuel strong demand and investors picked up shares across a wide spectrum.

NZ Telecom hit a record high for the third day running, adding 7 cents at NZ$9.29 in turnover which accounted for 41 per cent of *the day's total activity*. Retailer Fisher & Paykel gained 50 cents to NZ$7.50.

BANGKOK sprang to life after several sessions of marking time, advancing 8.40 or 2.2 per cent to 394.85 on the SET index, although turnover remained on the dull side at Bt5bn.

Banks saw most of the action. Bank Aydhya was the most active share, rising Bt0.50 to Bt13.25. Bangkok Bank added Bt2 at Bt56.50 and Thai Military Bank, which announced plans to increase its capital in the second half of 1999, improved Bt0.45 to Bt10.25.

MANILA shrugged off a softer day for the peso, which edged lower on easier money market rates and short covering, to send the composite index higher in late trading. The benchmark ended up 42.55 at 2,146.39.

Oil leader Petron rose 40 centavos to 5.70 pesos and brewer San Miguel added 50 centavos to 53 pesos. In banks, Metrobank climbed 15 pesos to 330 pesos.

SEOUL met with more modest profit-taking and the Kospi index finished 4.69 lower at 613.43. Brokers said blue chips pushed higher in early trading on news of an upgrade for South Korean foreign debt, but by early afternoon local investors had begun to pocket profits.

However, a handful of leading shares still managed to stay positive on the day. Telecom ended Won31,000 better at Won639,000 and Korea Electric gained Won1,650 to Won34,150.

HONG KONG edged higher, buoyed mostly by net gains for a handful of market heavyweights. HSBC added HK$2 at HK$205 and China Telecom gained 30 cents to HK$14.65.

The Hang Seng index closed 24.80 higher at *10,314.91. The red-chip index* shed 3.6 per cent and H shares came off 5.2 per cent.

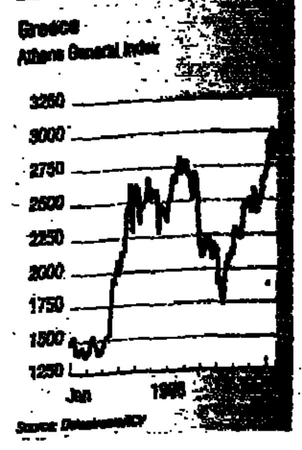
EMERGING MARKET FOCUS

Athens surges on euro-phoria

Rising confidence in Greece's *chances* of becoming the 12th member of the euro club drove prices on the Athens stock *exchange* to record levels this month.

Disregarding the Socialist government's warning *about* "euro-phoria", many small investors rushed to spend their savings on shares at the start of the year.

In local currency terms Athens was the world's best-performing market last year with the benchmark general index showing a gain of 85 per cent. After adding another 10 per cent to reach a new high of 3,058.7 on January 8, the index fell back. Yesterday it ended down 0.89 per cent at 2,960.8 on profit-taking by small investors.



Steady progress on reducing inflation and the budget deficit has reassured investors that Greece's goal of euro membership in 2001 is within reach. Inflation slowed to 3.9 per cent in December while the budget deficit shrank last year to 2.2 per cent of gross domestic product. The public debt *is* still excessive, but a fall last year of four percentage points to 105 per cent of *GDP* fits the convergence requirement of a declining trend.

A fall in interest rates in line with inflation triggered an avalanche of buying on the stock market.

"Local investors were used to returns above 10 per cent on treasury bills and savings accounts. With rates set to come down this year, they are looking to the bourse instead," said Constantine Xenos, head of research at Egnatia Securities.

After outperforming the index last year with a gain of 151 per cent, the banking sector will remain a focus of attention, Mr Xenos said.

The privatisation of Ionian Bank, Greece's fourth largest, is due to take place in March. Trading is heavy in shares of three listed banks that are expected to bid.

Other developments will be a one-for-four stock split by National Bank of Greece, the country's *biggest*, ahead of a planned listing on the New York stock exchange, and *the listing in* Athens of EFG Eurobank through a merger with a subsidiary, *Bank of Athens*.

Eurobank, controlled by the London-based Latsis group, *last year* took over three Greek banks. It is the frontrunner to acquire *Ionian, in partnership* with Ergobank, in which it has a 20 per cent stake.

Banks' earnings are projected to grow strongly this year. Analysts predict a surge in *mortgage* and consumer lending as rates dip further, while banks also *stand to make big gains* on sizeable holdings of government bonds.

Bond prices jumped 5 per cent when the finance ministry abolished withholding tax on interest earnings for non-residents from January 1. Demand is strongest for seven, 10 and 15-year paper, with investors betting on rising prices and falling yields as interest rates approach those in the euro-zone.

Spreads have narrowed but the benchmark 10-year Greek bond is still offered at spreads of more than 250 basis points above German 10-year bunds.

Kerin Hope

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